



# MANAGING SYDNEY'S GROWTH CENTRES



Submission of the Urban Development Institute of Australia NSW to the Department of Planning



September 2005

## Contents

1	UDIA-NSW .....	6
1.1	Who We Are .....	6
1.2	What We Do .....	6
2	INTRODUCTION.....	7
2.1	Growth Centres Exhibition.....	7
2.2	UDIA NSW Submission Structure .....	7
3	THE CHALLENGE .....	9
3.1	The Pressure.....	9
3.2	The Mix.....	9
4	ECONOMIC VIABILITY.....	13
4.1	Vendor expectations.....	13
4.2	Infrastructure Levy.....	14
4.3	Alternative Infrastructure Financing Models .....	17
5	EFFECTIVE PLANNING AND DESIGN.....	20
5.1	Getting the Balance Right .....	20
5.2	Densities.....	21
5.3	Employment lands.....	23
5.4	Retail and Commercial Centres and Land Use .....	25
5.5	Water Supply Canals.....	27
5.6	Heritage Curtilages.....	28
5.7	Transition Zones.....	29
6	BARRIERS TO IMPLEMENTATION .....	32
6.1	Timing of Precincts.....	32
6.2	Fragmentation .....	32
6.3	Lot Delivery in Fragmented Landownership.....	35
6.4	Governance.....	38
7	OUTSIDE THE GROWTH CENTRES .....	40
8	CONCLUSION .....	41
	APPENDIX 1 .....	43

Prepared by:

Principal authors:

Scott Woodcock - UDIA NSW (Deputy Director - Policy)  
 Ross Blancato  
 Dr David Poole  
 Stephen McMahon

With the assistance of the UDIA NSW Dwelling and Land Supply Committee and the Metro Strategy Sub-Committee in consultation with its members.

Dr. David Poole (UDIA NSW Executive Director)

Dwelling & Land Supply Committee

Ralph Bruce (President UDIA NSW)  
 Ross Blancato (Jr Vice President & Chair)  
 Laurie Rose  
 Mick Owens  
 John Vagulans  
 Grahame Kelly  
 Rory McLeod

Metro Strategy Sub Committee

Paul Sant (Chair)  
 Stephen McMahon  
 Bob Meyer  
 David Taylor  
 Stephen Taylor  
 Scott Phillips  
 Bernard Gallagher  
 Nigel Rayner  
 Roger Collins-Woolcock  
 Kevin Alker

## SUMMARY

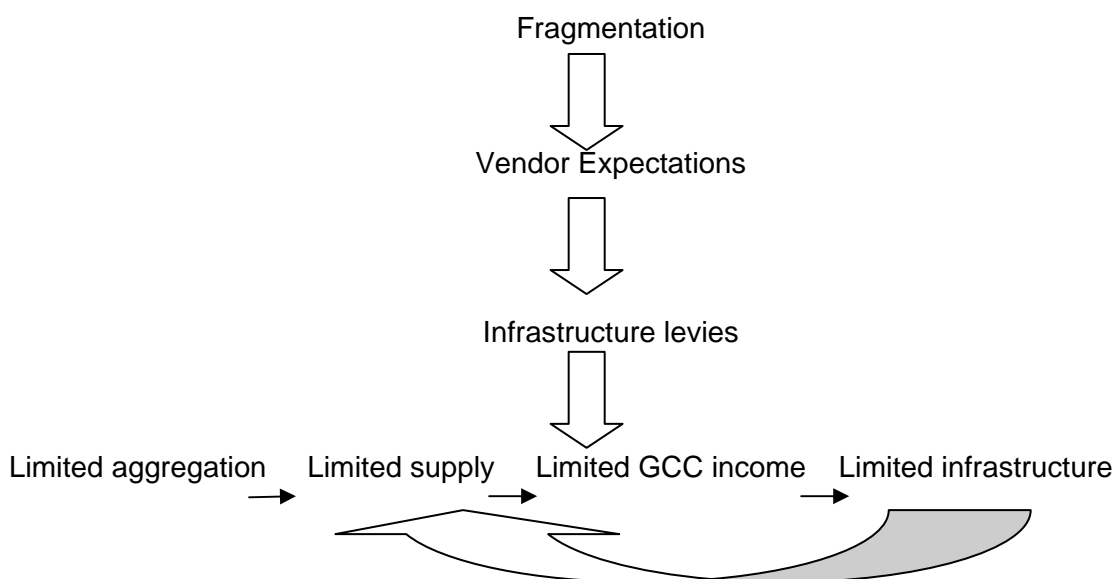
**The NSW Government’s proposal to create the North West (NW) and South West (SW) Growth Centres represents a strategic investment in Sydney’s future. Accordingly, the UDIA strongly commends the NSW Government on its foresight in creating the Growth Centres, and seeks to work closely alongside it in the implementation of the Metropolitan Strategy generally and the Growth Centres in particular.**

UDIA NSW’s members are tasked with delivering the communities that will comprise the Growth Centres. Industry, while applauding the Government’s commitment to the release areas, recognises that there are significant challenges that need to be resolved before the first house is delivered. This submission outlines these challenges and suggests solutions so that they may be overcome.

Excluding macro economic influences such as migration and interest rates, UDIA NSW has identified the following issues that necessitate a strategic response:

- i. vendor expectations;
- ii. infrastructure levies;
- iii. effective planning and design;
- iv. market expectations;
- v. timing of stages and linkage to infrastructure programs;
- vi. fragmentation; and
- vii. governance.

Of these, high vendor expectations coupled with high infrastructure levies have the greatest potential to encumber the performance of the Growth Centres. The figure below illustrates the consequences in terms of limited supply, reduced income to the government and a resultant constrained delivery of infrastructure, which without there can be no supply, no income etc.



The Growth Centres seek to achieve a production target of 150,000 dwellings over 25 years which equates to at least 6,000 dwellings per annum. UDIA anticipates that this yearly target will be apportioned to create approximately 4,000 dwellings/annum in the SW release and 2,000 dwellings/annum in the NW. Considering that Macarthur achieved only 3,000 lots per annum at its peak in the 1970/80's, the Growth Centres represent an immense and ambitious undertaking which will only be realised in a sympathetic regulatory and economic environment.

Accordingly, UDIA NSW seeks to contribute its collective experience and knowledge to the Metropolitan Strategy debate; that the NSW Government may have every opportunity to deliver conditions conducive to the delivery of new, affordable and appropriate housing in the growth centres.

UDIA NSW has reviewed the exhibition documentation, and through the collective resources and expertise of its members, wishes to tender the following comments and suggested amendments to the draft documentation on exhibition. All comments are considered to be constructive and are not presented in any particular order of importance. **UDIA NSW asserts that the community, industry and government share a common goal for the successful implementation of the Growth Centres.** The recommendations are not mutually exclusive and do not stand alone. They are considered vital to the success of the Growth Centres and should be read in conjunction with the documentation currently on exhibition. UDIA tables these recommendations in the spirit of collaboration and hopes that the government will further engage with industry to realise the new communities.

UDIA NSW offers the following 12 recommendations:

## RECOMMENDATIONS

*UDIA NSW therefore recommends that:*

1. *recognising the need to meet lot demand via both large landholdings and the consolidation of land held in fragmented ownership, a supply train of zoned and serviced land be built and maintained at a level that will permit competition amongst land vendors to attract the interest of developers*
2. *convergence between vendor expectations and financial viability for the urban development can be achieved by*
  - i. *informing vendors of the urban development process to create a competitive market for their land;*
  - ii. *lowering the proposed infrastructure levies so that an increased price can be paid to vendors for land;*
  - iii. *increasing transparency of the strategic planning process to negate speculation.*

*That the infrastructure levy be:*

1. *reduced by seeking alternate methods of financing so that the majority of residential lands in the growth centres can be delivered at an affordable price that is in line with market expectations; and*
2. *applied to commercial and industrial lands to broaden the base of the levy. Industry and commercial activities will also gain through improved arterial roads and services.*

*That UDIA NSW therefore contends that debt financing should be employed to delay, supplement and/or reduce the proposed infrastructure. Should the government remain adverse to debt financing UDIA NSW therefore suggests three infrastructure financing models infrastructure financing models be further investigated:*

- 1. Additional Metropolitan rate*
- 2. Delayed levy on new lots*
- 3. Phased up front levy*

*UDIA NSW recommends that:*

- 1. expectations for residential densities in new release areas should be clarified;*
- 2. alternative approaches to density should be explored, rather than the adoption of a uniform 15 dw/ha across the Growth Centre area, including a site by site approach, based on ground truthing of local conditions and staging/evolution (ie when critical mass of public transport, amenity and services is achieved) of the Growth Centre;*
- 3. expectations for high density, high rise residential built forms should be tempered unless Government is prepared to influence market demand by providing public investment in public domain works, public transport and services to establish competitive conditions to permit this dwelling type to compete with other similar developments in established suburbs with marked locational advantages; and*
- 4. higher densities should be implemented in locations which offer high residential amenity such as surrounding centres and local open space assets (instead of on boundaries along major roads) and support these locations with a coordinated investment in public infrastructure.*

*UDIA NSW recommends that the proposed location of employment lands be reviewed with the objective of designating such activities in areas which can facilitate their release and which can be conveniently accessed*

*UDIA NSW recommends that the proposed distribution of retail and commercial activities be reviewed in the following manner:*

- strip commercial development be amended to focus commercial uses in specific locations to assist the generation of economic opportunities through agglomerations of alike activity, establish a distinctive retail hierarchy, and avoid the urban design impacts of strip development on major roads;*
- the structure of local neighbourhood retailing be based on 800 metre catchments in association with bus routes and a connected road network. Potential locations should achieve all three of these criteria; and*
- the land use in neighbourhood centre catchments should be maximised for urban residential uses to facilitate the viability of retail and commercial activities.*

*A new zone, or sub-zone within the 'Landscape and Rural Lifestyle' zone, should be introduced, notionally entitled the 'Transition Zone' which provides for the realisation of some urban development on larger lots, say around 2,000 – 4,000sqm, which can provide the mechanism to fund and/or achieve the private management of environmental areas and bushfire Asset Protection Zones and the establishment of environmental corridors in public ownership at no cost to Government.*

*UDIA NSW recommends that the objectives, function and intended form of the 'Water Supply' Canals be clarified or removed from the Structure Plan.*

*UDIA NSW recommends that:*

- 1. the curtilages of heritage properties within each Growth Centre be identified and confirmed in the structure planning process. The curtilages should be based on a pragmatic approach which achieves a careful balance between conservation goals and goals that achieve sufficient critical mass of residential activity to support public transport and local neighbourhood centres.*
- 2. the requirement for the concurrent approval of the NSW Heritage Council be removed, once curtilage boundaries have been confirmed, to expedite the consent process.*

*That alternative methods for developing fragmented areas be investigated, including development using masterplan cells and the transfer of lot yield from areas of high biodiversity in the growth centres to a transition zone on the boundary based on the ratio described in UDIA NSW's proposal.*

*The SEPP should be clarified and should allow for changes to the underlying zoning of the land to permit the identification of new land uses which can achieve the objectives of the Growth Centre in a truly balanced manner.*

*The SEPP and final Structure Plans should effectively establish the policy mechanism, agreed prior at a state-wide level, which reflects the balanced agreement of the often competing interests of government agencies prior to the commencement of the rezoning and development consent process, in order to expedite the release of lots.*

*The Growth Centres are the priority and should remain the focus of the Greenfield development for the next two decades. However, contingency plans should be developed should the growth centres fail to accommodate the project population growth.*

# 1 UDIA-NSW

## 1.1 Who We Are

The Urban Development Institute of Australia (UDIA) is Australia's peak representative body for all segments of the urban development industry. The UDIA is the voice of development, across Australia.

Our mission is to promote innovation and best practice for sustainable environments and communities.

The 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.

## 1.2 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.

## 2 INTRODUCTION

### 2.1 Growth Centres Exhibition

On 1 June 2005, the NSW State Government released for exhibition a plan to guide and regulate the development of two new Growth Centres within Metropolitan Sydney.

The North West Growth Centre encompasses a corridor of rural, semi-rural and settlement areas in the north west sector of Sydney to the north and west of the new Rouse Regional Centre on Windsor Road. The South West Centre encompasses a corridor of rural and semi-rural areas in the south west sector of Sydney to the north west of the town of Campbelltown; west of the M5 Motorway.

The Plan on exhibition contains a number of elements. It indicates:

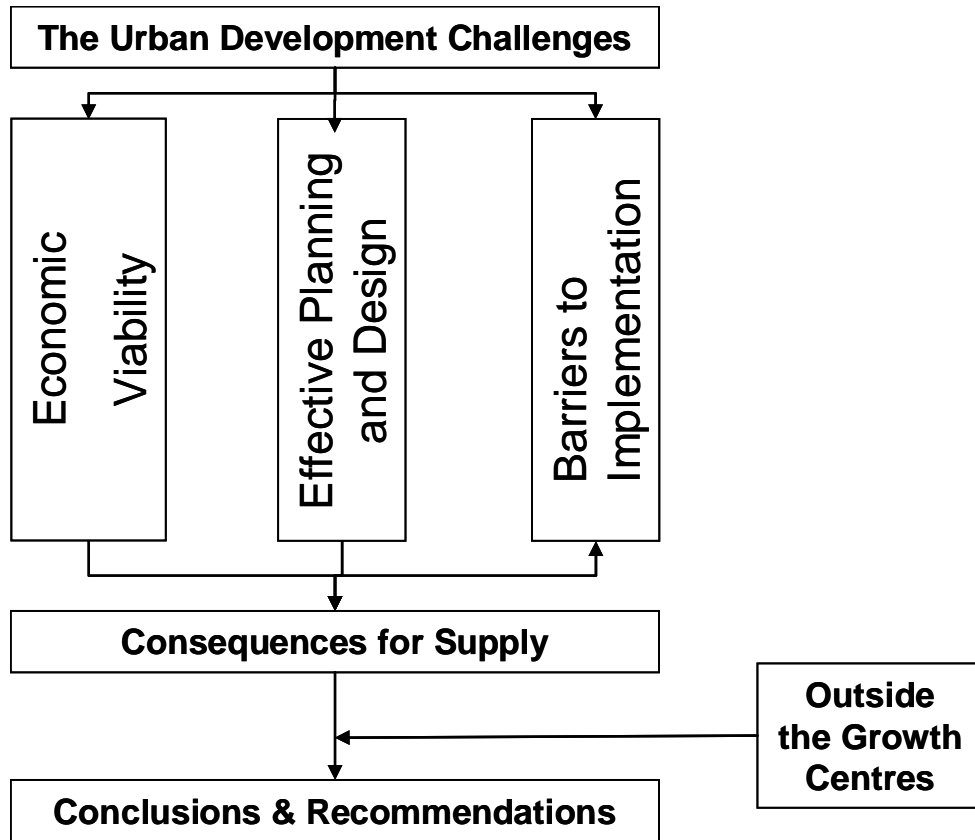
- Draft boundaries of responsibility for the Growth Centres' Commission. A Commission established to manage the development of the new Growth Centres.
- A pattern of land uses contained within a draft Structure Plan for each centre. Each Plan illustrates the intended form and distribution of local and town centres, residential densities, employment areas and areas of environmental significance to be kept free of development.
- Draft boundaries and preliminary details concerning a proposed State Environmental Planning Policy (SEPP) that will designate lands for urban development and designate lands for landscape and rural lifestyles.
- A Draft 'Infrastructure Report'; which identifies the regional infrastructure required to establish the Growth Centres including a preliminary estimated levy per dwelling proposed to be imposed by the Growth Centre's Commission at the release of the Linen Plan.
- Explanatory text and supporting reports that explain the approach to the proposed planning for, and implementation of, the Growth Centres

### 2.2 UDIA NSW Submission Structure

UDIA NSW has examined the material provided and consulted with its members to inform its comments on managing the growth centres. The NSW Government should be commended on pursuing such an ambitious, structured vision for Sydney. UDIA NSW supports the structure plans in principle and is committed to their implementation. Notwithstanding, UDIA NSW contends that the proposed plan needs to improve its responsiveness to the market. UDIA NSW as the *Voice of Development* is uniquely placed to offer such advice. The submission has been divided into seven key sections and with principal issues being:

1. economic viability;
2. effective planning and design; and
3. logistical barriers to implementation.

The Structure of the submission is illustrated in the following diagram.



UDIA NSW concludes with a suite of recommendations that, when implemented, will assist the government in the delivery of the Growth Centres.

## 3 THE CHALLENGE

### 3.1 The Pressure

The announcement in 2004 of the Growth Centres was welcomed by the urban development industry as a significant strategic engagement with land supply and infrastructure by Government that has been absent in Sydney for the previous two decades. Planning to accommodate Sydney's population growth has been episodic with supply well short of demand leading to reduced affordability.

The 1988 *Metropolitan Strategy, Sydney Into its Third Century* recognised that there was a need for increased land supply beyond that identified in the 1968 *Sydney Region Outline Plan* (SROP), to accommodate a Greater Metropolitan Sydney population of five million residents. The SROP provided for a population of five million by 2000. The *2004 NSW Statistical Local Area Population Projections 2001-2031* estimates that Sydney's population will reach 5.3 million by 2031. This represents an increase of 1.2 million over 30 years.

The land chosen to accommodate those five million people has now been largely developed, except rather than housing five million as forecast, it houses only four million. The 1988 plan has fallen one million short added to which there is the need to identify new areas which need to be developed over the next 25 years. The reasons for the 1 million shortfall are twofold:

1. SROP assumed an occupancy rate of 3.3 persons per household. However, this has fallen dramatically to a 2001 figure of 2.6 persons per household (ABS). This is a 20% decrease in the average household size; and
2. The established areas of Sydney actually lost population between 1970 and 1990 and these areas have only recovered in the past decade to record growth, due mainly to the availability of large attractive and well located inner and middle area brownfield sites and the rediscovery of conveniently located inner suburbs.

The Growth Centres are therefore a fundamental necessity for a global city that seeks to accommodate its growing population, maintain its competitiveness and manage some degree of housing affordability. Achieving the target though will be a significant challenge.

### 3.2 The Mix

Traditionally, greenfield areas accounted for the majority of new housing demand. However during the 1990s a strong reversal saw a higher proportion of new dwellings provided in established areas particularly on brownfield sites. These were situated in former industrial areas such as those on Sydney Harbour, Parramatta River and the former central industrial area (CIA) in South Sydney. This represented around 70% of all new dwellings.

The Metro Strategy, now under preparation, extrapolates this proportion up to 2031, proposing 60% to 70% of all dwellings in the Sydney Region to be in established areas. The remainder (30% to 40%) would be accommodated primarily in greenfield developments in the SW and NW Growth Centres and associated areas such as Balmoral Road, Second Ponds Creek, Elderslie, St Marys and Spring Farm.

Assuming a population increase of 1.4 million people over 25 years at an optimistic occupancy rate of 2.4 persons per household (the likely occupancy rate in 2031) requires nearly 600,000 dwellings. By contrast, the Department of Planning has used an average occupancy of 2.75 for the SW and 2.8 for the NW by 2031.

These are exceptionally high figures given that both Campbelltown and Camden LGA occupancy rate at the 2001 census was 2.9 when the proportion of single family detached dwellings were 76% and 87% respectively. If 30% to 40% are in greenfields then there is a need to provide 180,000 to 240,000 dwellings in the SW and NW combined. That is 7,200 – 9,600 dwellings per annum in the greenfields alone.

The growth centres are forecast to yield 150,000 dwellings. This creates a deficit of 30,000 – 90,000 dwellings which will have to be accounted for in developments outside the growth centres in order to satisfy the 30%-40% greenfield target. The significance of this shortfall is demonstrated in Figure 1 below.

To create only 150,000 dwellings over 25 years, notwithstanding the shortfall, demands an average lot production in the SW and the NW of 6,000 dwellings per annum. This, in proportion, would be around 4,000 in the SW and 2,000 in the NW per annum.

These are annual rates equivalent to some of the highest ever achieved in any one sector. In fact, 4,000 pa in one area would exceed that of 3,000 achieved in Macarthur in the heyday of the 1970's and 1980's when the private sector, Landcom and the Housing Commission were active in the area.

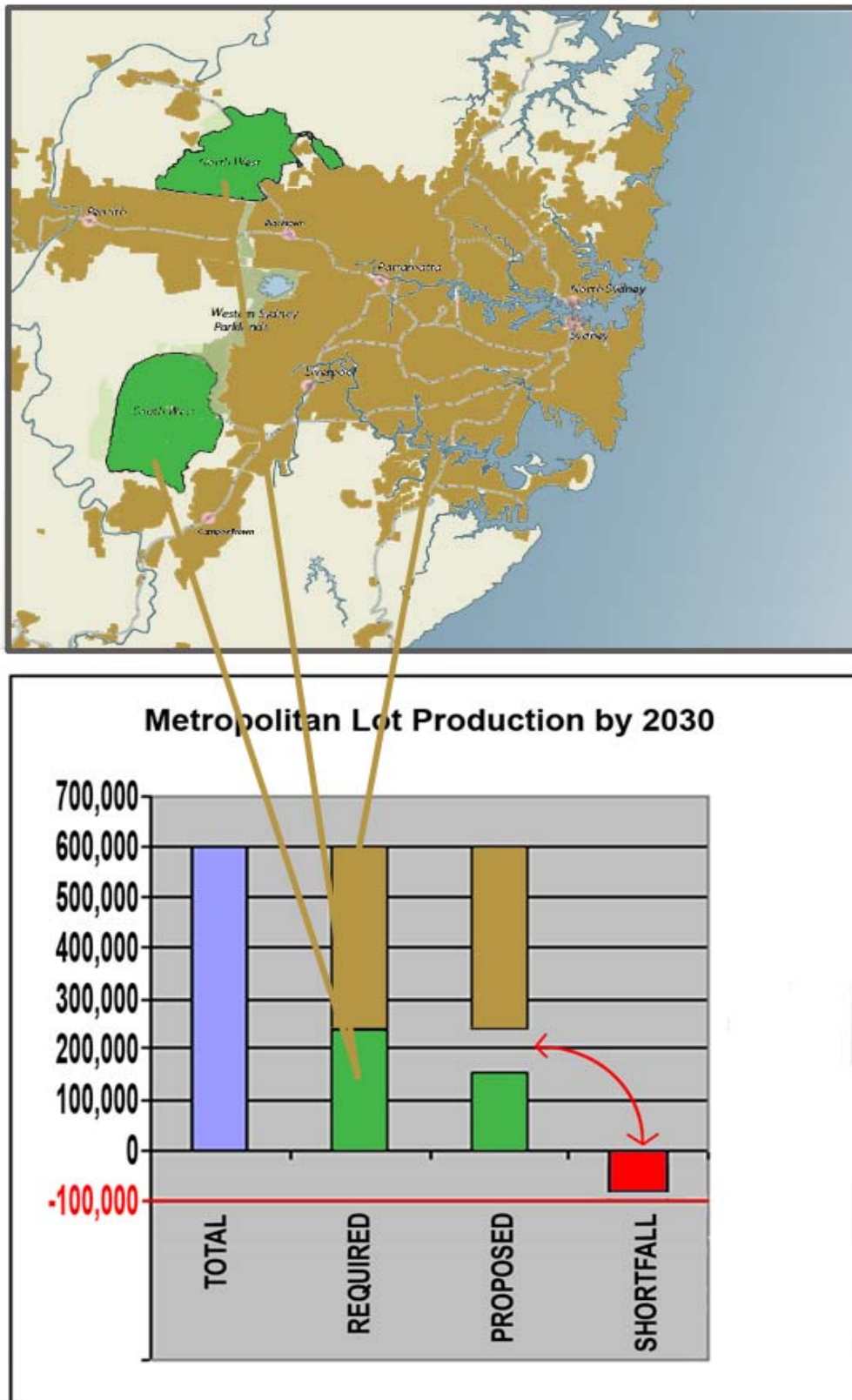


Figure 1: Illustration of Potential Lot Production Shortfall by 2030

Sydney has struggled to produce 3,000-4,000 lots annually since 2003, as illustrated in Figure 2. The Metro Strategy therefore envisions a doubling in annual dwelling production.

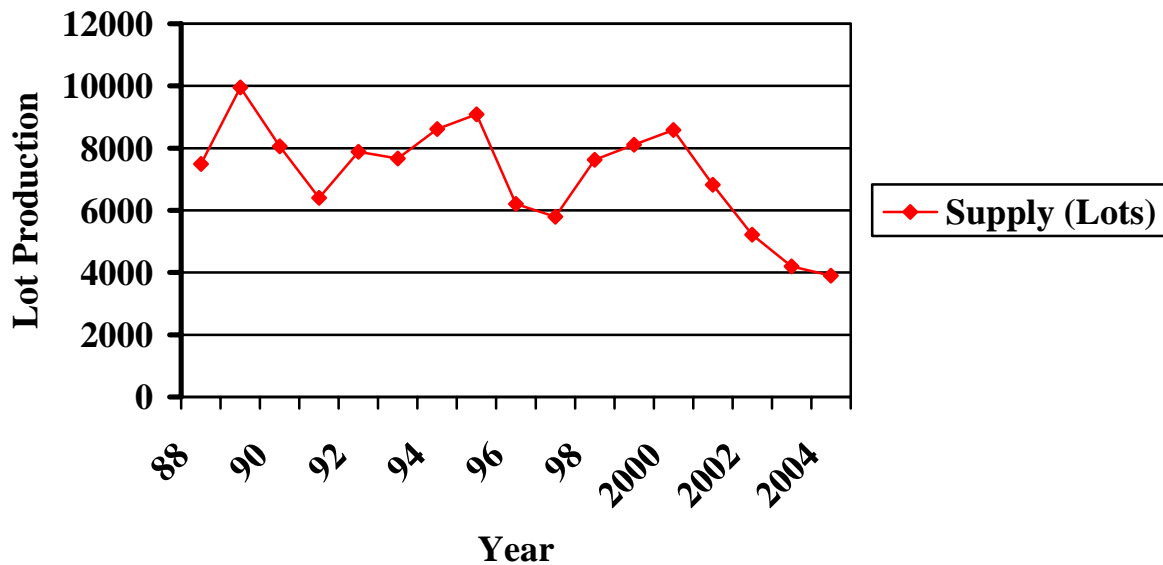


Figure 2: Lot Production (1988 -2005)

It is anticipated that there will be a delay in delivering six thousand lots per annum due to current market conditions as well as a loss of skills and investment to other states. To improve timeliness of delivery to meet the ambitious targets, favourable financial and regulatory conditions will be essential to restore confidence and certainty in the market.

UDIA NSW members are committed to delivering in the Growth Centres provided that the issues presented in the subsequent chapters are addressed, for while greenfield development is a challenge, the biggest hurdle to the realisation of Metro Strategy is the delivery of 60 to 70% of new dwellings in established areas.

Most of the large former industrial (brownfield) sites are now developed, leaving smaller, fragmented, less predictable sites to achieve the 360,000 to 420,000 dwellings required in the existing urban area over 25 years. This equates to an average of 14,500 to 17,000 dwellings per annum in existing urban areas of Sydney. This is an ambitious figure given that established areas produced around 25,000 pa between 1997/98 and 2001/02 (MDP) at the height of brownfield development.

If the established areas fail to achieve their targets then further pressure will be placed on the Growth Centres to perform. This is why it is vital that the NSW Government increase its commitment to the NW and SW release areas in terms of regulatory streamlining and infrastructure investment.

The following chapters explore the issues associated with the financial, planning and logistical hurdles to the delivery of new dwellings in the growth centres.

## 4 ECONOMIC VIABILITY

### 4.1 Vendor expectations

UDIA NSW is in receipt of over one hundred submissions from residents in the Growth Centres. This correspondence is testament to their expectations.

One letter states that:

*“My parents turned down \$2.6 million and two offers of \$2.5 million in the last 18 months because they were advised by real estate agents that their five acres was worth more.”*

UDIA NSW members have sought to amass land for development in the Growth Centres. While vendors are entitled to a reasonable return on their investment, current expectations far exceed that which can be paid by developers, particularly as a result of the magnitude of the proposed infrastructure levies.

Figure 3 describes the impact of the infrastructure levies on englobed land prices. The model is indicative only, as each development is unique. It contains certain assumptions that UDIA NSW considers are reasonable and appropriate. The land feasibility model uses an average retail sale price for a 450m<sup>2</sup> lot of \$270,000 which is considered typical for frontal urban development in Sydney. Given the current market, an average block of land priced significantly above \$270,000 is unlikely to sell in the foreseeable future.

The model then works backward by accounting for all the development costs including the infrastructure levy to yield the residual land value. The residual land value is what the developer can afford to pay the vendor, if the final serviced product is to remain affordable to the homebuyer.

When risk and return to investors is considered this generates a maximum residual land value of \$210,000/acre. This is far less than current rural land values which attract sales prices between \$300,000 and \$400,000/ acre<sup>1</sup>. It is a commonly held expectation by small landholders in the growth centres that sale prices between \$500,000 and \$1 million/ acre<sup>2</sup> are achievable.

In the NW alone lots less than two hectares or five acres account for 57% of proposed residential zoned land. Section 6.2 illustrates the fragmentation of the land release areas. Addressing vendor expectations in fragmented areas will therefore be difficult to achieve given the additional burden imposed by the proposed infrastructure levy.

UDIA NSW believes that vendor expectations have been compounded by a lack of transparency by the government in the strategic planning process. The Metropolitan Development Program (MDP) which contains forecast dwelling yields for Sydney, has not been released since 2002. Essentially, there was intense speculation concerning the boundary of the growth centres which fuelled anticipation.

---

<sup>1</sup> R McLeod (2005) Landsburys NW Sales Assessment (not published)

<sup>2</sup> 1 hectare = 2.471 acres

In retrospect some of this could have been averted by having a long term transparent metropolitan plan that identified growth corridors similar to those experienced in Perth, Brisbane and Melbourne.

UDIA NSW anticipates that some time is needed for vendor expectations to temper. To facilitate this process a degree of convergence between vendor expectations and the market's ability to pay must be achieved. The following actions would assist this process:

- i. informing vendors of the urban development process to create a competitive market for their land;
- ii. lowering the proposed infrastructure levies so that an increased price can be paid to vendors for land; and in future;
- iii. increasing transparency of the strategic planning process to negate speculation.

The vendor is an integral part of the urban development process and their expectations have to be met to a degree to achieve the orderly development of the growth centres. Accordingly, vendor expectations have significant implications for staging, infrastructure levies (collection and expenditure on works) and dwelling supply in the growth centres. To manage and reduce the impact of vendor expectations UDIA NSW makes the following recommendations:

## RECOMMENDATIONS

*UDIA NSW therefore recommends that:*

1. *recognising the need to meet lot demand via both large landholdings and the consolidation of land held in fragmented ownership, a supply train of zoned and serviced land be built and maintained at a level that will permit competition amongst land vendors to attract the interest of developers*
2. *convergence between vendor expectations and financial viability for the urban development can be achieved by*
  - i. *informing vendors of the urban development process to create a competitive market for their land;*
  - ii. *lowering the proposed infrastructure levies so that an increased price can be paid to vendors for land; and in future*
  - iii. *increasing transparency of the strategic planning process to negate speculation.*

## 4.2 Infrastructure Levy

The proposed infrastructure levy of between \$25,000 and \$65,000 in the Growth Centres will stifle investment, lower annual dwelling production, reduce the return to the Growth Centres Commission and accordingly constrain infrastructure investment which will in turn constrain investment and create a negative feedback loop. This will occur for the simple reason that a levy of such a magnitude will, if it could be passed on, increase the price of land to well beyond the capacity of the market to pay and/or beyond reasonable market values in comparison to other areas. Essentially, the infrastructure levies distorts the market to the detriment of the release areas.

UDIA NSW has created the model described in Figure 3 to illustrate the impact of the levies on the urban development process. The model is indicative of reality, as each development is unique. As described previously, it contains certain assumptions that UDIA NSW considers are reasonable and appropriate.

<b>ASSUMPTIONS</b>		
Dwelling density	15	dwgs/ha
	6	dwgs/ac
Average lot size	<450	sqm
Infrastructure levy	\$40,000	Lot<450sqm
	\$50,000	Lot>450sqm
S94 contribution	\$45,000	per lot
Water Board contribution	\$15,000	per lot
Civil costs	\$40,000	per lot
Sales price	\$270,000	per lot

<b>FEASIBILITY</b>		<b>Lot</b>	<b>Acre</b>	<b>Hectare</b>
Sales price		270,000	1,620,000	4,050,000
Less GST	7.5%	20,250	121,500	303,750
<b>Net sales revenue</b>		<b>249,750</b>	<b>1,498,500</b>	<b>3,746,250</b>
<b>Less Development Costs</b>				
Civil works		40,000	240,000	600,000
Water Board contributions		15,000	90,000	225,000
Section 94 contributions		45,000	270,000	675,000
Infrastructure levy		40,000	240,000	600,000
Selling expenses	5.0%	13,500	81,000	202,500
Rates, taxes and interest	est.	10,000	60,000	150,000
<b>Sub-total</b>		<b>163,500</b>	<b>981,000</b>	<b>2,452,500</b>
Development profit	26%	51,250	307,500	768,750
<b>Total development costs</b>		<b>214,750</b>	<b>1,288,500</b>	<b>3,221,250</b>
<b>Residual land value</b>		<b>35,000</b>	<b>210,000</b>	<b>525,000</b>

**Figure 3: Land Feasibility**

As previously noted, the model employs an average retail sale price for a 450m<sup>2</sup> lot of \$270,000, currently typical for frontal urban development in Sydney. Land priced above this threshold would be difficult to sell in the current market.

The model is conservative in its assumptions with levies and interest costs conceivably higher for some areas.

UDIA NSW assumptions are based on data provided by the government which estimate that a dwelling density of 15 dwellings per hectare will incur a \$50,000 infrastructure levy. This equates to a \$750,000 developer contribution per hectare or \$1.5 million per five acre parcel.

This is a significant contribution and excludes s94 contributions to council which are similar in scale, water and sewer connection charges and civil costs (roads etc). These costs are approximately \$1 million per acre or \$163,500 per block of land.

A development profit of 26% is factored into the model. This is not the internal rate of return but a single profit that must be divided by the many years that it takes to deliver the development to the market. Failure to achieve a 26% return on investment will mean that the result will be short of that obtainable through alternative investment sources such as the stockmarket. In such circumstances property development becomes uncompetitive and reduces developer's access to investment, which in turn lowers dwelling supply and affects affordability.

Once all the charges and the profit are accounted for, the residual land value remains. That is, the value of the land that the developer can afford to pay the vendor, if the final serviced product is to remain affordable to the homebuyer.

Figure 3 illustrates that to assemble the land within the confines of the market, the developer can pay a maximum of \$210,000/acre. However, as described earlier, vendor expectations remain between \$500,000 and \$1 million/acre.

Alternatively, if \$495,000 per acre (or \$1.25 million per hectare) is paid in accordance with expectations then this will result in a retail price for a 450m<sup>2</sup> lot of \$440,000<sup>3</sup>. This is \$170,000 above what the market is prepared to pay and accordingly exceeds the mortgage ceiling of the average homebuyer.

Accordingly, most UDIA NSW members cannot deliver a product in the Growth Centres that is within the reach of the average homebuyer due to the proposed infrastructure levy. Only developers active in the growth centres that have significant equity in large land parcels that were purchased in decades past will be able to develop land at an affordable price. These developers (parcels > 40 Ha) account for less than 30% of the developable residential land in the Growth Centres. As a consequence the proposed infrastructure levy will seriously compromise 70% of the residential component of the land release areas.

Developers will find it difficult to aggregate sites and generate momentum to create truly great places to live. The best result will be piecemeal and disordered development of small estates interspersed with vacant land that cannot be acquired, creating unconnected road networks and bus routes, and gaps in infrastructure coupled with an inherent failure to achieve contemporary urban design objectives.

Furthermore the Government's reliance on large landholdings presents a risk to the full implementation of Metro Strategy. The government is dependent on the goodwill of the landowners notwithstanding that such parcels are highly dispersed. A mix of small and large developers in the market is essential to maintain competitiveness and affordability.

UDIA NSW accepts that some level of infrastructure levy will be applied by the NSW Government. To lower the levy further, UDIA NSW contends that the base of the levy should be broadened to improve equity. UDIA NSW therefore recommends that it also apply to commercial and industrial lands.

The levy is in effect a betterment tax. Industry and commercial activities will also gain through improved arterial roads and services. Alternative infrastructure models are proposed in section 4.3.

---

<sup>3</sup> Bruce R (2005) Australian Congress on New Urbanism. Development Challenges.

## RECOMMENDATIONS

*That the infrastructure levy be:*

- 1. reduced by seeking alternate methods of financing so that the majority of residential lands in the growth centres can be delivered at an affordable price that is in line with market expectations; and*
- 2. applied to commercial and industrial lands to broaden the base of the levy. Industry and commercial activities will also gain through improved arterial roads and services.*
- 3. subject to independent costing, ongoing monitoring and regular auditing.*

### 4.3 Alternative Infrastructure Financing Models

Today, the median house price in Sydney is \$495,000. The average salary is now around \$52,500. On this basis, the median home is almost 9.5 times the average salary. In 1970, the median house price was \$18,700 and the average salary around \$3,500. Homes then cost only five and a half times average earnings. Notwithstanding that there are more dual income families now, this remains a significant difference. Affordability has thus demonstrably worsened considerably over time.

UDIA NSW contends that a levy between \$25,000 and \$65,000 per dwelling will seriously further compromise affordability. Upfront payments by homebuyers for infrastructure that will service many subsequent generations is unfair. UDIA NSW seeks improved intergenerational equity through better and more efficient ways of funding infrastructure that allow the entire community to contribute.

The following principles are promoted as a model for orderly urban development:

- provision of infrastructure linked to the land release program in a cost effective and timely manner;
- predictable, supportive and efficient planning systems that facilitate delivery of the elements needed to deliver the metro strategy outcomes;
- use of development corporations to manage the project; and
- public and private provision in cooperation, primarily via increased private participation in major infrastructure. This may include public-private partnerships and development agreements.

These principles have been satisfied, to some degree, through the establishment of the Growth Centres Commission and the amendments to *Environmental Planning and Assessment Act 1979* that allows the pursuit of planning agreements for in-kind infrastructure contributions by developers. (However we note that the model proposed, which proposes a levy *in addition* to S.94 contributions, does not fit into the new legislation).

UDIA NSW recognises that modern governments are averse to debt. Financing from general revenue using borrowed funds was the widespread practice of governments when borrowing costs to government were very low and prior to the growth in influence of global financial markets.

Nevertheless, UDIA NSW believes that there is some scope for the use of limited long term debt to help finance discrete major infrastructure activities. Similarly, opportunity exists to employ debt financing to ensure early provision and also avoid any erosion in the value of funds raised through contributions.

UDIA NSW therefore contends that debt financing should be employed to delay, supplement and/or reduce the proposed infrastructure.

Should the government remain adverse to debt financing UDIA NSW therefore suggests three infrastructure financing models infrastructure financing models be further investigated:

**1. Additional Metropolitan Rate.**

Applied on all commercial / industrial / residential properties in metro Sydney under:

- A) a flat fee or
- B) a staggered rate based on the investment value

The levy could exist within a NSW Metro Improvement Levy or a Parks Levy and be used to fund regional infrastructure and open space in growth areas.

**2. Delayed Levy on new lots.**

The Levy is charged to the developer by State Government 2 to 3 years into the development after commencement of adequate cash flow.

Options around pass-back to property purchasers can be at discretion of developer but a minimum level of absorption of levy by developers could be set due to additional profit that could result from provision of up-front infrastructure. State Government would have to budget for some debt on this option in initial phase but will have a strong revenue source after 2 to 3 years.

This would only impact on the NSW Government's cash surplus, not headline operating surplus (which is more politically sensitive) as capital investment is not treated as expenditure beyond its addition to depreciation costs in the out-years.

**3. Phased in up-front Levy.**

This is an extension of a \$15,000 per lot levy (with variation around land size) on five year increments applied to new developments. This would allow supply to grow at a reasonable rate in the short term with less of an impact on developers. As supply comes on in medium term (and price growth is reduced) the levy can be increased.

UDIA NSW favours debt financing as the most practicable preferred option. Nevertheless, all four models recognise that too great a burden has been placed on the new homebuyer in NSW and that these costs should be distributed more effectively, efficiently and equitably to improve housing affordability and better integrate infrastructure financing and works into new developments. UDIA NSW is further investigating alternative infrastructure financing models.

**RECOMMENDATION**

*That UDIA NSW therefore contends that debt financing should be employed to delay, supplement and/or reduce the proposed infrastructure levy. Should the government remain adverse to debt financing UDIA NSW therefore suggests three infrastructure financing models infrastructure financing models be further investigated:*

1. *Additional Metropolitan rate*
2. *Delayed levy on new lots*
3. *Phased up front levy*