



## NSW MINI-BUDGET 2008

Submission of the Urban Development Institute  
of Australia NSW to the NSW Government

October 2008

## Executive Summary

UDIA NSW is a proud advocate of the urban development industry and its customers, the people of NSW. We represent over 500 participants in the industry and our members include developers, regulators, and affiliated professionals. Our advocacy efforts are directed towards three major issues;

- housing affordability;
- investment certainty; and
- sustainability.

As responsible and ethical contributors to the public debate, UDIA NSW has taken the opportunity to make a submission and provide five recommendations for consideration in the development of the NSW mini-budget that should be adopted to assist in the recovery of the urban development sector.

The NSW economy is significantly underperforming those of other major states. Investment confidence in NSW is decreasing with consecutive reviews of infrastructure commitments and an uncompetitive regulatory and economic framework.

The 2008 mini-budget is the opportunity for the NSW Government to reinforce its commitment to delivering on the key strategic policy initiatives of the Metropolitan and Regional Strategies. This includes the commitment to delivering major lead-in infrastructure transport networks that provide multi-generational infrastructure that will underpin the sustainable development of new release areas and urban centres. This includes commitments to delivering infrastructure that has been announced, costed, programmed and promised to stakeholders who are investing in NSW.

Underpinning the strategic framework for investment must be a consistent and competitive cost structure. The significant downturn in the urban development sector, and therefore Government revenues, provides a valuable opportunity for the Government to review its policy settings for the property tax framework. UDIA NSW would welcome the opportunity to work with the Government to develop a more equitable, transparent and competitive tax and levy framework to assist in the recovery of the NSW economy.

The mini-budget provides opportunities for the NSW Government to target resources towards leveraging Commonwealth investment in infrastructure. The opportunity for the Government to utilise Commonwealth initiatives including the Building Australia Fund and the Housing Affordability Fund to renew and revitalise the NSW housing market has never been greater or more critical.

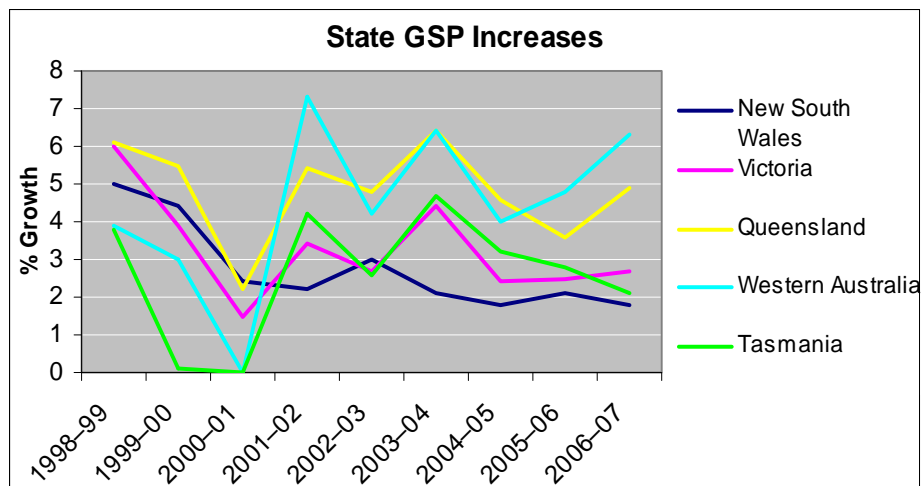
Revitalising the urban development industry will be fundamental to the recovery of the NSW economy. UDIA NSW offers the following recommendations for immediate consideration by the NSW Government in its development of the mini-budget:

1. **The mini-budget reinforce the Government's commitment to capital investment on key transport infrastructure to support new development in release areas and key centres. This includes;**
  - **delivering Stage 1 of the \$12 billion North West Metro by 2015 and Stage 2 by 2017 – promised in June 2005;**
  - **delivering the South West Rail Link from Glenfield to Edmondson Park and Leppington by 2012 – promised in June 2008;**
  - **delivering upgrades to Richmond Road, Schofields Road, Camden Valley Way, Bringelly Road; and**
  - **transport and servicing infrastructure identified in the Metropolitan Strategy, Regional Strategies and the State Plan.**
2. **The NSW Government use the opportunity presented by diminishing property tax revenues to undertake a comprehensive review of the cost structure for development in NSW and its relative competitiveness to other states.**
3. **The NSW Government establish an Infrastructure Taskforce comprising of three Government appointees and three key private sector stakeholders to engage directly with Infrastructure Australia and Commonwealth Government on the Building Australia Fund and other infrastructure initiatives.**
4. **The Government conduct a thorough review of the role of Government agencies in the assessment of investment opportunities to ensure an efficient, whole of government approach to delivering strategic policy objectives.**
5. **Maintain the independence of the Growth Centres Commission in coordinating the delivery of new homes to the Sydney Growth Centres.**

## Introduction

The delivery of a mini-budget in November 2008 provides an opportunity for the Rees administration to respond to changing fiscal conditions for the NSW Government and to detail the investment priorities required to stimulate demand in the underperforming NSW economy. It will be the first comprehensive opportunity for the new Cabinet to reinforce its intention to maintain a framework for investment certainty in NSW by sticking to the publicly declared strategic objectives for economic recovery.

The challenges for the new Government are well documented. The NSW economy is significantly underperforming that of every other major state and this is being reflected in successive years of gross state product growth of less than three per cent. The need for the Government to provide a dynamic investment environment has been overshadowed in recent times by matters of less significance. NSW is now significantly uncompetitive relative to other states as a place to do business. This is nowhere more pronounced than in the urban development industry.



The urban development industry is a major contributor to the NSW economy and its investment decisions are guided by key strategic documents like the State Plan, the Sydney Metropolitan and various Regional Strategies. The residential sector of the industry alone contributes more than \$15 billion worth of activity to the NSW economy annually and the property industry in general accounts for around twenty per cent of state government revenue through stamp duty.

The effect of underinvestment in infrastructure to support urban development growth is reflected in declining stamp duty revenue in 2008 and the increasing cost of congestion on business activity. Dwelling production in NSW is at fifty year lows and the industry is sustaining significant employment contraction, particularly in Sydney. The tax and levy cost structure of new housing in Sydney is now seven times more expensive than in Melbourne and twice as expensive as Brisbane.

Given these challenges, there is a need for the Government to maintain a framework for investment certainty. This is provided in part by public investment in key strategic decisions that will underpin long term, sustainable growth. Demand in the NSW economy will not be stimulated by cutting capital spending that will expand the productive capacity of the economy.

The Government must also use the mini-budget as an opportunity to review the economic and regulatory framework for development in NSW. Revitalising the urban development industry will be fundamental to the recovery of the NSW economy.

## Housing Affordability

The NSW residential market has been consistently underperforming that of the other major states. 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).

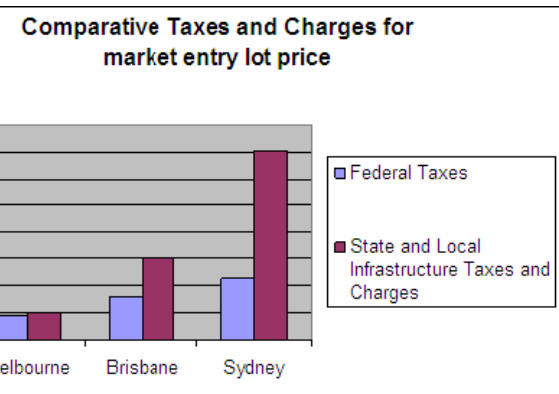
NSW is currently experiencing record low demand for housing despite strong fundamental drivers that are influencing the underlying demand. The underlying demand for housing is being driven by record immigration levels and changing household formation.

The record low demand for new housing despite strong population growth and low rental vacancy rates demonstrate that housing in NSW, and Sydney in particular, remains unaffordable for the majority of new purchasers. This is despite five years of stable prices in the established market and significant declines in prices for new housing for new housing as developers attempt to stimulate demand.

The NSW Government has employed a number of supply-side initiatives that have been recognised by the development industry. The establishment of the Growth Centres Commission (GCC) has provided a focus to

delivering potential dwelling opportunities in the North West and South West of Sydney. It is critical that the independence of the GCC is maintained to drive ongoing increases in supply, and further geographic diversity of sub-market supply.

The supply of zoned land must be accompanied by the availability of key infrastructure to provide any benefit to the community. UDIA NSW contends that the NSW Government must increase its focus on ensuring that zoned land is serviced, particularly with key road and public transport investments and water and sewer infrastructure.



The failure to provide the efficient and equitable delivery of infrastructure in NSW has been a major contributor to the lack of housing affordability. The application of development levies in Sydney in particular has contributed to significant geographic and intergenerational inequities for new homebuyers. New homebuyers in Western Sydney are paying seven times more in local and state government charges than they would in Melbourne, and twice as much as they would in Brisbane as evidenced by the graph to the left. This equates to Sydney homebuyers paying approximately \$120,000 more in state and local charges over the life of a mortgage than homebuyers in Melbourne.

These levies have resulted 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 on home buyers. Any consideration of an expansion of the levy philosophy to fund new capital works must be abandoned.

The mini-budget provides the opportunity for the Government to confirm its commitment to sustainable levels of infrastructure spending to support urban growth in accordance with the Metro Strategy and State Plan. This includes the commitment to delivering major lead-in transport networks that provide multi-generational infrastructure that will underpin the sustainable development of new release areas. This must also include reinforcing the *City of Cities* philosophy with investment in the public domain and transport accessibility of existing urban centres. UDIA NSW has demonstrated to the Government that the supply of dwellings to these areas will be heavily constrained in the absence of greater access and amenity.

Failure to address the transport and amenity needs of new and existing residents through capital investment will further exacerbate dwelling production declines and reductions stamp duty revenue. The Government must maintain sustainable levels spending on key infrastructure to reinvest in its future revenue streams by improving accessibility and expanding the production capacity of the economy.

The Commonwealth Government has demonstrated a determination to engage the issue of housing affordability and provide a policy and economic response in consultation with key stakeholders. The introduction of the Housing Affordability Fund (HAF), the Building Australia Fund (BAF), and the National Rental Affordability Scheme (NRAS) have provided significant opportunities for leverage with state and local authorities to deliver outcomes for their constituents.

UDIA NSW contends that the NSW Government needs a substantially greater focus on leveraging these programs to deliver real gains for the NSW economy. The opportunity for the Government to utilise the BAF and HAF to renew and revitalise the NSW housing market has never been greater or more necessary.

### Investment Certainty

Providing certainty for investment in NSW must be the fundamental influence on the development of the mini-budget. The extent to which investment certainty has been fostered in NSW can be reflected in the fact that Tasmania has delivered five consecutive years of higher increases GSP Growth.

From an urban development investment perspective, investment certainty must be underpinned by a number of factors, including:

- transparent and efficient regulatory frameworks;
- sustained commitments from Government to key long term policy initiatives;

- commitments to established reform processes;
- a positive, whole of government approach to private investment opportunities; and
- the Government's understanding and proactive actions in streamlining the current long approval timeframe processes which contribute significantly to the costs of urban development.

The recent reforms to the *Environmental Planning and Assessment Act 1979* will likely succeed in introducing some efficiencies into what has become the worst performing planning system in Australia but the underlying constraints to urban development in NSW remain. The absence of inter-agency consistency on addressing assessment matters has resulted in a bureaucratic framework which stymies development, increases housing costs and causes unconscionable delays. No one entity is responsible for assessment outcomes and the individual departments are remote from the impacts of their decisions.

UDIA NSW is supportive of the NSW Legislative Council Review of the NSW Planning System but contends that the Government cannot wait twelve months for the final report to introduce significant regulatory improvements. There is an acute need for a culture of providing investment certainty to prevail in all government departments. The 'Open for Business' mantra has not succeeded in generating better outcomes because it has not been adopted by individual government departments or at an officer level.

The inconsistency between Government agencies reinforces the need for key strategic documents to guide growth. The Metro and Regional Strategies provide a degree of investment certainty, both in established areas and in new housing and employment areas. The importance of these key documents is reinforced by infrastructure commitments to deliver the strategy outcomes. A failure to keep these commitments by not delivering infrastructure compromises the integrity of the strategies, hinders investment certainty, and undermines the achievement of key Government policy objectives.

Underpinning the strategic framework for investment must be a consistent and competitive cost structure. Ongoing speculation on the expansion of property taxes, including new development levies, the expansion of state levies to regional NSW, the delayed removal of stamp duty on commercial transactions further erodes investment certainty. It also contributes to the perception that investment decisions are being made in the absence of funding commitments, which further compromises the integrity of strategic policy decisions and undermines government credibility.

The significant downturn in the urban development sector, and therefore Government revenues provides a valuable opportunity for the Government to review its policy settings for the property tax framework. The current framework has demonstrably contributed to the record low levels of production and puts NSW at a significant competitive disadvantage to other states. The investment response has significantly impacted the NSW economy. UDIA NSW would welcome the opportunity of working with the Government to develop a more equitable, transparent and competitive tax and levy framework to assist in the recovery of the NSW economy.

## Sustainability

UDIA NSW has extensively advocated the need for sustainable development to address genuine triple bottom line outcomes. This must include the delivery of social and economic objectives.

The urban development sector has been an enthusiastic contributor to ecologically sustainable outcomes through the adoption of new technologies and energy efficiency. A depressed market simply reduces the aggregated impact of programs like BASIX, impairing the achievement of government policy goals.

The mini-budget must be used to reinforce a sustained commitment by the Government to the delivery of infrastructure that will underpin the sustainable development of new housing and employment opportunities. Transport defines settlement. Transport investments support new urban releases and infill housing and provide access to employment, including for key workers. The Metro Strategy and the Growth Centres have been designed on the delivery of sustainable transport options.

The current property tax framework compromises the delivery of sustainable outcomes by:

- discouraging people from being able to adjust their housing consumption to meet their needs;
- hinders new employment development close to growing housing areas in Western Sydney, including placing levies on new employment land; and

- breaking one of the fundamental rules of sustainability – intergenerational equity – by passing costs of 100 year infrastructure onto one generation of buyers – in many cases these costs are borne by those least able to afford it.

Home ownership is, and has always been, a key driver of social equity in Australia by providing a pathway for people toward economic stability. The provision of unviable cost structures for development through uncompetitive levies and taxes fundamentally compromises the urban development industry's capacity to deliver homes at affordable levels. Declining levels of home ownership and high costs of new housing fundamentally undermine social sustainability.

## Conclusion

The 2008 mini-budget is the opportunity for the NSW Government to reinforce its commitment to delivering on the key strategic policy initiatives of the Metropolitan and Regional Strategies. This must include committing to major capital investment to stimulate demand and expand the productive capacity of the economy.

The mini-budget must also provide recognition of the role that property taxes and levies have played in compromising the investment viability and certainty of urban development in NSW. The current economic and regulatory framework has provided a context for five years of record low dwelling production, heavily constraining the ability of the urban development industry to deliver sustainable, affordable communities.

Revitalising the urban development industry will be fundamental to the recovery of the NSW economy. As responsible, ethical contributors to the public debate, UDIA NSW would welcome the opportunity of working with the NSW Government to:

- review the property tax and levy framework; and
- review infrastructure financing and delivery framework;

so as to deliver on key policy objectives in areas of housing affordability, investment certainty and sustainability.

UDIA NSW offers the following recommendations for immediate consideration by the NSW Government in its development of the mini-budget:

- 1. The mini-budget reinforce the Government's commitment to capital investment on key transport infrastructure to support new development in release areas and key centres. This includes;**
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