Kickstarting Infill

Addressing feasibility and delivering housing diversity

PROPERTY COUNCIL of Australia

Supply Pipeline for multi-residential dwellings

A multitude of well-articulated factors have reduced the feasibility of multi-residential projects over the past twelve months. In January, the Property Council WA prepared a report titled *Delivering Housing Supply and Affordability for Western Australians*. The findings of the report have been updated and a subsequent briefing note provided to the state government in August 2022, titled *Risks to Housing Supply Pipeline Due to Construction Constraints*.

The impacts of labour and supply shortages have been felt more acutely by multi-residential projects compared to other product types due to the nature of the sales and development cycle, with cost estimates and presale regularly required in advance of building contract budgets being finalised and final contract sums being agreed.

The Urban Growth Monitor indicates that the higher percentage of infill dwellings is being realised by single, grouped, and triplex development, with only 22 per cent of the infill dwellings in 2020 comprising over 50 dwellings and only one of the six sub-regions of Perth meeting its infill dwelling targets in 2022.

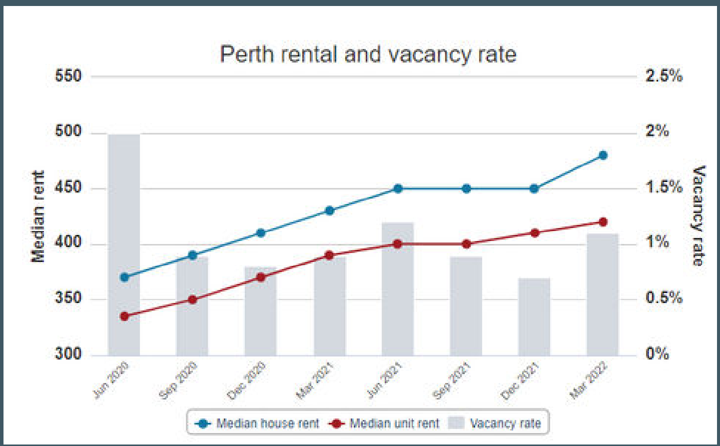
It has been challenging to ensure the viability of multi-residential developments in more predictable economic conditions: in the current conditions it is almost impossible.

The state is going to fall further behind in reaching its infill targets unless immediate and creative action is taken to shift the feasibility of current and future multi-residential projects.

The future pipeline for apartments and multi-residential dwellings in WA is dire. **The Property Council estimates that 71 per cent of DA approved apartment projects are now on hold, equalling 6,674 homes.** A slowdown in new dwelling delivery is highly problematic in the current market with demand exceeding supply in many areas, leading to rental cost escalation and elevating house prices in the established market.

In addition to previously proposed policy ideas, the Property Council provides the following recommendations for reactivating medium to high density development in WA and to avoid a supply crunch that would erode affordability across the state.

Rental Indicators



Source: REIWA

[1] https://www.abs.gov.au/statistics/industry/building-and-construction/building-approvals-australia/latest-release

Quick Wins to Support Supply

PROPERTY COUNCIL of Australia

1

PROVIDE CHOICE IN PLANNING PATHWAYS

According to research, between 2006 and 2016 “Greater Perth saw very strong growth in its outer areas and little in inner and middle locations”[1], a trend which has since continued. The same research also found that some LGAs were “unwilling to accept new development, instead wanting to maintain the existing characteristics of the area”[2].

The Property Council is a strong advocate for the positive role Development Assessment Panels (“DAPs”) play in delivering high-quality built environment outcomes for Western Australia. In their current form, DAPs provide expert assessment of development projects and depoliticised decision making, enabling the development community to deliver projects that align with the planning aspiration and infill targets set by the State, whilst maintaining a very high degree of decision-making transparency and an opportunity for community participation.

The introduction of DAPs in WA in 2011 was a positive change, which championed a system with independent decision making that harnessed the expertise of technical practitioners and elected local government members – an ambition which has been achieved in execution. However, the DAP system is limited and many worthy infill projects have not been able to use this approval pathway.

Removing the minimum thresholds and expanding DAPs eligibility will allow the development community to have the discretion to access independent, depoliticised decision making more readily, and circumvent instances where elected members inhibit development against the recommendation of council officers.

There is now an opportunity to expand the accessibility of DAPs to improve the pace, quality and independence of planning decision making in WA. To support more streamlined planning, the Property Council proposes two changes to DAPs:

- Abolish the optional "Opt-in" DAP value thresholds to allow all developments the option to be assessed through the DAP system.
- Amend the 'Excluded Applications' list to state “construction of less than 5 grouped dwellings or multiple dwellings”.

There are several benefits to expanding the eligibility of DAPs. Principally, it would embed within the planning system the ability of the development community to elect a pathway for project assessment, thereby encouraging councils to reach high-performance standards to compete with the DAP system.

Currently, projects unable to access DAP assessment which are blocked by Councillors against the advice of expert planning practitioners results in projects being forced into a legal process to overturn Councillor-led opposition, even when a project is assessed as meeting all of the planning laws. This outcome is a true representation of pure red tape, that represents no value to the community.

[1] https://www.ahuri.edu.au/research/final-reports/334, doi:10.18408/ahuri-8118701\
[2] ibid

2

REDUCE LOCAL GOVERNMENT RED TAPE

The costs of red tape and planning delays are difficult to estimate. However, if costs incurred by the state's property industry were to represent just one per cent of the value of building permits in the first six months of 2021, they would exceed $80 million[3].

In the current market, high development costs have meant that infill projects are largely only viable in high value locations (see chart to left). In many instances, feasible development sites are faced with the challenge of elected members running anti-density campaigns, adding red tape delays, and placing undue pressure on feasibility.

Recently, several local governments moved to implement the retrospective charging of public open space contributions, using DCP 2.3.

Another clear example of red tape occurs at the development approval stage. At this stage planning officers will review the application and make a recommendation for approval or changes in a 'Responsible Authority Report' (RAR).

Increasingly, at a local government level, RARs are being referred to elected members (at either Planning Committee Meetings or Ordinary Council Meetings) prior to being referred to JDAP for a final decision, resulting in delayed projects, additional costs, and increased community confusion.

For example, the City of Fremantle required all JDAP applications to be reviewed by Council prior to the JDAP meeting abolishing this power.

It is alarming to see many instances of RAR's being ignored by Councillors who oppose projects on a subjective basis.

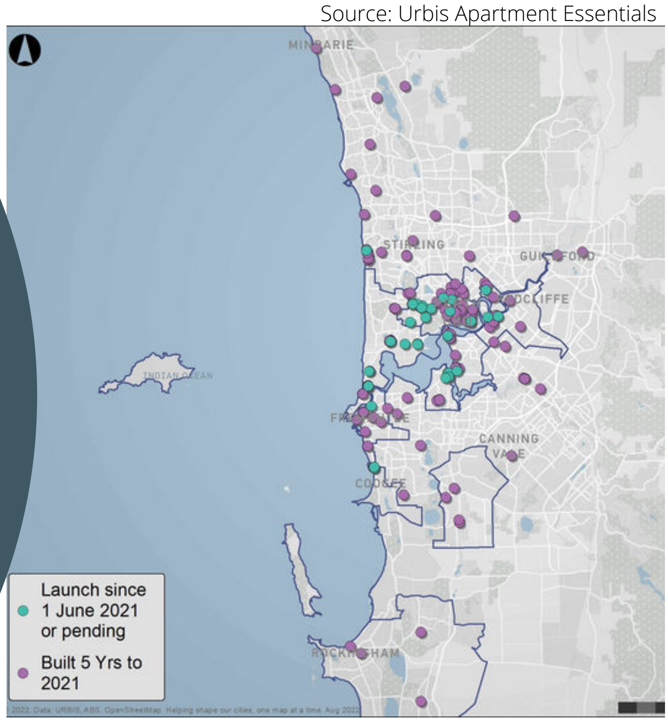
The Property Council have long been campaigning for improved delegations for non-DAP applications, noting that **the current practice of many councils to have almost all matters determined by elected members is not working.**

A simple recommendation would be for the development of a 'model delegations schedule', which would clearly articulate the limited circumstances in which decisions could be referred to Councillors for determination.

"Our (mixed use) development was opposed in April this year by Council even after the Planning Officers recommended it for approval. Council called it into a Council Meeting prior to JDAP where we had to give deputations for the development. The Councillors then prepared an Alternative Recommendation to JDAP which rejected the development."

Major National Retail Group

Source: Urbis Apartment Essentials



[3] https://www.abs.gov.au/statistics/industry/building-and-construction/building-approvals-australia/latest-release

3

ESTABLISH A HEADWORKS FUND

In contrast to house and land products, apartment and multi-residential projects regularly require developers to outlay significant up-front funds for headworks and other expenses prior to the project generating any substantial revenue. The high cost of providing for or upgrading power, telecommunications, drainage and sewerage, and water infrastructure can inhibit the feasibility of a site.

Supporting the upfront funding of headworks could enable sites previously considered unfeasible to progress.

The Property Council proposes state government invest in the creation of a Headworks Fund, accessible across all land uses. The Headworks Fund could operate by offering zero-interest loans to cover the costs of delivering headworks. The loans would be fully payable within six months of practical completion, enabling repayment at a time when the project is more financially viable.

The zero-interest loan scheme would mean developers would not be required to debt fund headworks, improving feasibility of the project, and reducing the need to transfer costs to the purchaser, hence supporting the ability of the market to produce more affordable products.
An AHURI report published in 2020, identified a similar opportunity to reduce the upfront costs of development. In the report it made the following recommendation[4]:

5.3.3 Reducing the cost of development, and adjusting the timing of infrastructure obligations.

Some costs of development are unavoidable. However, there is a certain amount of flexibility that could be employed to ensure development projects that are financially marginal could become viable and deliver housing supply. For example, restructuring taxes and other contributions so they are payable at the completion of the development rather than upfront would help marginal projects.

[4] https://www.ahuri.edu.au/research/final-reports/334, doi:10.18408/ahuri-8118701\