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MEDIA RELEASE

Infrastructure Charges, Slow Approvals Hamper New Home Builds

Greater Sydney will lose out on the delivery of more than 100,000 new homes - equivalent to a city the size of Wollongong - without action to limit the impact of property taxes and charges, and faster planning approvals.

A report from the Property Council of Australia and global real estate firm Savills forecasts 133,000 new homes will be delivered under business-as-usual during the five-year 2024-29 Housing Accord period, based on 2023 completion rates – just 41 per cent of Greater Sydney's overall target.

Property Council NSW Executive Director Katie Stevenson said another 107,400 homes across Sydney, the Hunter, Central Coast and Illawarra-Shoalhaven could be delivered with Government support for targeted, time-limited measures to get the housing pipeline moving.

"The NSW Government can't control all the costs preventing housing delivery, but one lever they can pull right now is to limit the impact of property taxes and charges stifling development.

"Savills' modelling shows that temporarily suspending new infrastructure charges and faster planning approvals could support the delivery of more than 100,000 additional homes by 2029.

"This research clearly demonstrates Government taxes and charges are in some areas adding up to 40% to the cost of construction of new homes."

Ms Stevenson said property taxes and charges were becoming an increasing focus for other State and Territory Governments aiming to meet housing delivery targets.

"The NSW Government should follow the lead of the Queensland and ACT Governments and commit to reviewing the impact of state taxes and charges that are negatively impacting housing supply.

"The NSW property industry contributes more than any other sector to tax revenue, providing almost half of the NSW Government's $43.2 billion tax and royalty revenue in 2021-22.

"We're calling for a suspension of new infrastructure taxes and charges during the Housing Accord period, and for Government to invest upfront in the infrastructure needed to support new homes."

Ms Stevenson said it was critical to deliver more housing without delay, and that completed projects will allow the Government to recoup its investment in the long term.

"Housing projects that get built generate stamp duty, land tax and payroll tax. Housing projects that remain on a spreadsheet don't generate any value at all," Ms Stevenson said.

“It’s already a tough environment for construction – new taxes and charges make it even more difficult for companies to secure financing to get vital housing projects moving,” she said.

The report shows that suspending two charges that came into effect in the last 12 months - Water Development Servicing Plans (DSPs) and the Housing and Productivity Contribution (HPC) - and accelerating approval processes, could help NSW get closer to its 2029 Housing Accord target.

“Suspending these charges just for the next five years could means the difference between more than 100,000 new homes getting built – or not,” Ms Stevenson said.

The final report in the Property Council/Savills series details barriers to feasibility across Greater Sydney with a particular focus on the Lower Hunter, Greater Newcastle and Central Coast regions.

Savills National Director Property Consultancy, Stephanie Ballango said the research cast doubt on the NSW Government’s current focus on new apartment development in existing neighbourhoods.

“Our analysis shows that even with the suspension of the DSP and HPC taxes, infill apartment development remains financially unviable under current conditions and into the immediate future.

“This issue is particularly acute for smaller operators who dominate the infill development space, and a major concern given Government’s focus on ‘building up, not out’,” Ms Ballango said.

Ms Stevenson called for urgent action to remove the financial barriers choking housing delivery.

“We need to think beyond business-as-usual and use consolidated funding to deliver new sewers, roads, parks and other infrastructure during the period of the Housing Accord. This would make housing delivery more viable by removing these taxes from project costs.

“Suspending taxes during the Housing Accord period and putting more urgency behind speeding up planning approvals will give us a fighting chance to meet our housing goals,” she said.

The research shows that, over the Housing Accord period, no increases in taxes and charges, reductions in key state taxes and faster approvals could help deliver an additional:

- 34,000 homes in the Eastern Harbour City
- 33,500 homes in the Central River City
- 22,000 homes in the Western Parkland City
- 10,250 homes in Illawarra-Shoalhaven City
- 3,150 homes in the Central Coast City
- 4,500 homes in the Lower Hunter and Greater Newcastle City

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Release the pressure:

Alleviating taxes and charges to build new homes

September 2024

Executive Summary: **Introduction**

Everyone deserves access to quality housing and choice to suit their stage of life. Yet, housing is the single biggest cost for most of us. High housing costs mean too many people must live in housing stress which lowers productivity and threatens sustainability.

Many people worry whether they will ever be able to afford their own home. In fact, almost three quarters of young Australians believe they will never be able to buy a home[5].

As home prices and rents have increased sharply, public attention has focused on what governments can do to make housing more affordable and reduce the costs of living. There is broad consensus among experts that the best way to improve housing affordability is to increase supply.

However, there are significant barriers in place constraining the development sector's ability to bring desperately needed homes to market.

To help shine a light on these barriers, the Property Council has engaged Savills to develop a three-part report examining the impacts of increased taxes and charges on housing supply and affordability across the Six Cities Region.

Since 2018, the NSW Government has introduced (and reintroduced) a swathe of new taxes and charges, including Housing and Productivity Contributions, or HPC (up to $12,000 for houses) and Hunter Water Development Servicing Plan (DSP) (up to $25,600 per house). Many Councils have also increased the taxes and charges applied to residential projects with some Councils charging over $60,000 per house.

The Property Council of Australia (Property Council) has commissioned this report to:

- identify the process, timing and cost of developing new housing;
- summarise residential activity between 2018 and 2024;
- clearly and simply establish the full extent of development costs and charges; and
- review the impacts of taxes and charges on residential development including impacts within the Housing Accord period under various scenarios such as capping, suspending or discounting costs and charges (temporarily and permanently).

The first and second instalments of the report, *Release the Pressure No.1 and No. 2*, examined the impact of taxes and charges on residential development feasibility in Central River City, Western Parkland City, Eastern Harbour City and Illawarra-Shoalhaven City (Wollongong, Shellharbour, Kiama, Shoalhaven Local Government Areas).

This report, *Release the Pressure No. 3*, is the third and final instalment and examines the remaining cities in the Six Cities Region, being:

- Central Coast City (Central Coast LGA); and
- Lower Hunter & Greater Newcastle City (which covers Newcastle, Maitland, Port Stephens, Cessnock and Lake Macquarie. Our financial modelling is focused on feasibility in Newcastle LGA and Lake Macquarie LGA).

Executive Summary: **Hypothetical scenarios**

Release the Pressure No. 3 builds on the approach set out in *Release the Pressure Nos. 1 and 2* – exploring faster and streamlined planning approval timeframes to determine how greater certainty could boost developer confidence and support increased housing supply. Compressed planning approval timeframes of 12 months, 9 months and 6 months were modelled.

Release the Pressure Nos. 1 and 2 modelled hypothetical developments in the Western Parkland City, Central River City, Eastern Harbour City and Illawarra-Shoalhaven City as follows:

- 250 infill apartment development in the Western Parkland City, Central River City and Eastern Harbour City;
- 80 infill apartment development in the Illawarra-Shoalhaven City; and
- 115 lot greenfield development in the Western Parkland City, Central River City, Eastern Harbour City and Illawarra-Shoalhaven City.

Release the Pressure No. 3 models hypothetical developments in the Central Coast City and Lower Hunter & Greater Newcastle City as follows:

- 150 dwelling infill apartment development in the Lower Hunter & Greater Newcastle City;
- 115 lot greenfield development in the Lower Hunter & Greater Newcastle City;
- 150 dwelling infill apartment development in the Central Coast City;
- 115 lot greenfield development in the Central Coast City

All hypothetical developments have been modelled under four scenarios in 2018, 2024 and 2026. The scenarios are:

Base Case – application of all taxes and charges, including the phased introduction of HPC and DSP contributions as per current NSW Government commitments.

- **HPC Scenario** – suspension of HPC charges only for the Housing Accord period (mid 2024-mid 2029). DSP charges are phased in as per NSW Government commitments.

- **DSP Scenario** – suspension of DSP charges only for the Housing Accord period (mid 2024-2029). HPC charges are phased in as per NSW Government commitments.

- **Suspension of both HPC and DSP charges** for the duration of the Housing Accord period.

- **Shorter Planning Timeframe Scenario** – testing multiple scenarios, including the suspension or discounting of charges, with a shorter planning timeframe.

Preliminary results revealed that in most scenarios, development feasibility remained challenging. Accordingly, additional scenarios were modelled to investigate how development feasibility could be approved if planning approval timeframes were compressed.

Internal rate of return (IRR)

A metric used to calculate the return on funds invested. The IRR is the discount rate at which the net present value of all cash flows of an investment become zero. An IRR of 15-25% is typically acceptable at the early stage of a project by developers, financiers and investors, depending on risk, and has been adopted for the hypothetical scenarios tested in Section 6 of this Report.

Development margin (DM)

The development margin is the profit divided by the total development cost. It is not discounted to factor in the time value of money. Expressed as a percentage, a development margin of around 20% would typically be adopted and has been adopted for the hypothetical scenarios tested in Section 6 of this Report.

Executive Summary: **Previous Findings**

Release the Pressure No. 1 found:

- Government taxes and charges make up:
    - 24% of greenfield development costs in the Central River City; and
    - 33% of greenfield development costs in the Western Parkland City.
- A typical 250-unit apartment development and a 115-lot greenfield development in both the Central River City and the Western Parkland City are no longer financially feasible in 2024 based on increased construction costs, interest rates and the cost of finance.
- Planned increases in taxes and charges (HPC and Sydney Water DSP charges) will make many residential developments even more unfeasible.
- Suspending Sydney Water DSP charges and HPCs within the Western Parkland City are the single biggest lever that can be pulled to make residential development feasible.
- Implementing a maximum 12-month planning approval pathway will reduce holding costs, increase developer certainty and further improve development margins, thereby unlocking projects that contribute to supply.
- Planning reforms that target even faster streamlined timeframes (eg: 6-9 months) will further boost developer confidence.

Release the Pressure No. 2 found:

- Government taxes and charges make up:
    - 11.3% of infill development costs in the Eastern Harbour City; and
    - 40% of greenfield development costs in the Illawarra-Shoalhaven City.
- In the Eastern Harbour City, planned increases in taxes and charges (HPC and Sydney Water DSP charges) will make many infill residential developments unfeasible. While some developers may elect to proceed based on an acceptable development margin, the lengthy planning approval timeframes result in a low IRR, which would be a strong deterrent to many developers. Consequently, many infill residential developments would not be commenced.
- In the Illawarra-Shoalhaven City, infill residential development becomes closer to being feasible when Sydney Water DSP charges and HPC charges are suspended.
- Neighbourhood Plans (Wollongong City Council) and the higher propensity for developments to be contested in the Land and Environment Court results in longer planning approval timeframes which contribute a higher degree of uncertainty and development risk. Lengthy planning approval timeframes result in a low IRR and are a strong deterrent to developers.
- Implementing a maximum 12-month planning approval pathway significantly reduces holding costs, increases developer certainty and improves development margins, thereby unlocking projects that contribute to supply.
- Planning reforms that target even faster streamlined timeframes (i.e.: 6-9 months) will further boost developer confidence and continue to increase development activity.

Executive Summary: **Release 3 findings**

Release the Pressure No. 3 found:

- Government taxes and charges make up:
  - Over 20% of greenfield development costs in the Central Coast City;
  - Almost 15% (14.87%) of greenfield development costs in the Lower Hunter & Greater Newcastle City.
  - Over 7% of infill development costs in the Lower Hunter & Greater Newcastle City; and
  - Almost 7% (6.69%) of infill development costs in the Central Coast City;
- In both the Central Coast City and the Lower Hunter & Greater Newcastle City, planned increases in taxes and charges (HPC and Hunter Water DSP charges) will make many greenfield residential developments unfeasible. While some developers may elect to proceed based on an acceptable development margin, the lengthy planning approval timeframes result in a low IRR, which would be a strong deterrent to many developers. Consequently, many greenfield residential developments would not commence.
- Similarly, infill residential developments are initially unfeasible but come closer to being feasible when DSP charges and HPC charges are suspended. However, as infill areas generally contain higher levels of existing infrastructure, DSP charges are usually lower, and do not make as significant an impact in increasing feasibility as they do with greenfield development.
- Anecdotally, we heard that biodiversity conservation efforts have, in some cases, led to delays in greenfield developments. Lengthy planning approval timeframes result in a low IRR and are a strong deterrent to developers.
- Implementing a maximum 12-month planning approval pathway would significantly reduce holding costs, increases developer certainty and improve development margins, thereby unlocking projects that contribute to supply.
- Planning reforms that target even faster streamlined timeframes (i.e.: 6-9 months) would further boost developer confidence and continue to increase development activity.

Executive Summary: **Key Findings**

Hypothetical Development	Development feasibility if HPC and DSP charges are suspended					Development feasibility if planning approval timeframes are compressed		
	2018	2024 Base Case	2024 No HPC	2024 No DSP	2024 No HPC + No DSP	12 months	9 months	6 months
Central Coast City								
150 dwelling infill apartment	✓	x	x	x	X	✓ (Incl. No HPC or DSP)	✓ (Incl. No HPC or DSP)	✓ (Incl. No HPC or DSP)
115 lot greenfield	✓	x	✓	✓	✓	✓ (Incl. No HPC or DSP)	✓ (Incl. No HPC or DSP)	✓ (Incl. No HPC or DSP)
Lower Hunter & Greater Newcastle City								
150 dwelling infill apartment	✓	x	x	x	x	x (Incl. No HPC or DSP)	x (Incl. No HPC or DSP)	x (Incl. No HPC or DSP)
115 lot greenfield	✓	x	✓	x	✓	✓ (Incl. No HPC or DSP)	✓ (Incl. No HPC or DSP)	✓ (Incl. No HPC or DSP)

The benefit of **Government action**

Savills forecasts that having **no increases in residential development taxes and charges and faster approvals during the Housing Accord period would help deliver 243,250 new homes in Sydney, the Illawarra, Central Coast and The Lower Hunter & Greater Newcastle City in the 5 years to 2029.**

The delivery of 243,250 new homes by 2029 would contribute about 76% of the total Housing Accord commitment for the Six Cities region. The distribution of potential new homes as a proportion of the Housing Accord commitments and DPHI housing targets (June. 2024) is summarised below.

City	New Homes With Action	% of City's Housing Accord Commitment
Central Coast City	8,750	93%
Lower Hunter & Greater Newcastle City	23,000	76%
Eastern Harbour City	62,000	58%
Central River City	77,500	80%
Western Parkland City	50,000	85%
Illawarra-Shoalhaven City	22,000	117%

The benefit of **Government action**

Savills modelling indicates that **no government action during the Housing Accord period would only deliver 133,000 new homes in Sydney, the Illawarra, Central Coast and The Lower Hunter & Greater Newcastle City in the 5 years to 2029.**

The delivery of 133,000 new homes by 2029 would fail to meet the Urban Development Program Housing Targets in all Six Cities regions. The distribution of potential new homes as a proportion of the Urban Development Program Housing Targets is summarised below.*

City	New Homes (Without Action)	New Homes With Action	% of UDP 5-Year Housing Targets (Without Action)	% of UDP 5-Year Housing Targets (With Action)
Central Coast City*	5,600	8,750	65%	101%
Lower Hunter & Greater Newcastle City*	18,500	23,000	90%	112%
Eastern Harbour City	28,000	62,000	67%	149%
Central River City	44,000	77,500	79%	140%
Western Parkland City	27,000	50,000	86%	158%
Illawarra-Shoalhaven City	10,000	22,000	44%	97%

- * The Central Coast City Housing Supply Forecast informed by 'Central Coast Housing Strategy Existing conditions report' (Hill PDA Consulting, 2021), based on midpoint of high take-up and low take-up scenarios in report.
- * The Lower Hunter & Greater Newcastle City Housing Supply Forecast informed by Draft DPE Housing Supply Forecast 2021.
- * The Urban Development Program Supply Targets are for the period 2022/23 to 2026/27 (5 Years)

The cost of doing nothing

Continuing under current conditions is untenable. Without suspending residential development taxes and charges and compressing planning timeframes, housing supply in the Central Coast City, Lower Hunter & Greater Newcastle City, Eastern Harbour City, Central River City, Western Parkland City, and Illawarra-Shoalhaven City is likely to remain suppressed, with completions hovering at recent historic lows.

Savills modelling indicates that without undertaking any action there would be around 133,000 dwellings built between June 2024 and June 2029 (the Housing Accord period) (or 41% of the overall Housing Accord target) as follows:

- Up to 5,600 new homes will be delivered in the Central Coast City;
- Up to 18,500 new homes will be delivered in the Lower Hunter & Greater Newcastle City;
- Up to 28,000 new homes will be delivered in the Eastern Harbour City;
- Up to 44,000 new homes will be delivered in the Central River City;
- Up to 27,000 new homes will be delivered in the Western Parkland City; and
- Up to 10,000 new homes will be delivered in the Illawarra-Shoalhaven City.

Suspending residential development taxes and charges and compressing timeframes has the potential to significantly boost housing supply by almost doubling completions to over 240,000 dwellings, which is over 100,000 dwellings more than if there is no action to reduce these. The opportunity loss of suppressing housing supply has negative flow-on impacts to the NSW economy and will contribute to the current housing affordability crisis. The loss of revenue as a direct result of reduced stamp duty will further tighten the NSW Government's spending power.

The adoption of this report's recommendations would contribute towards achievement of the Housing Accord targets and the DPHI's recently released aggregated housing targets.

Conclusions: **The cost of doing nothing**

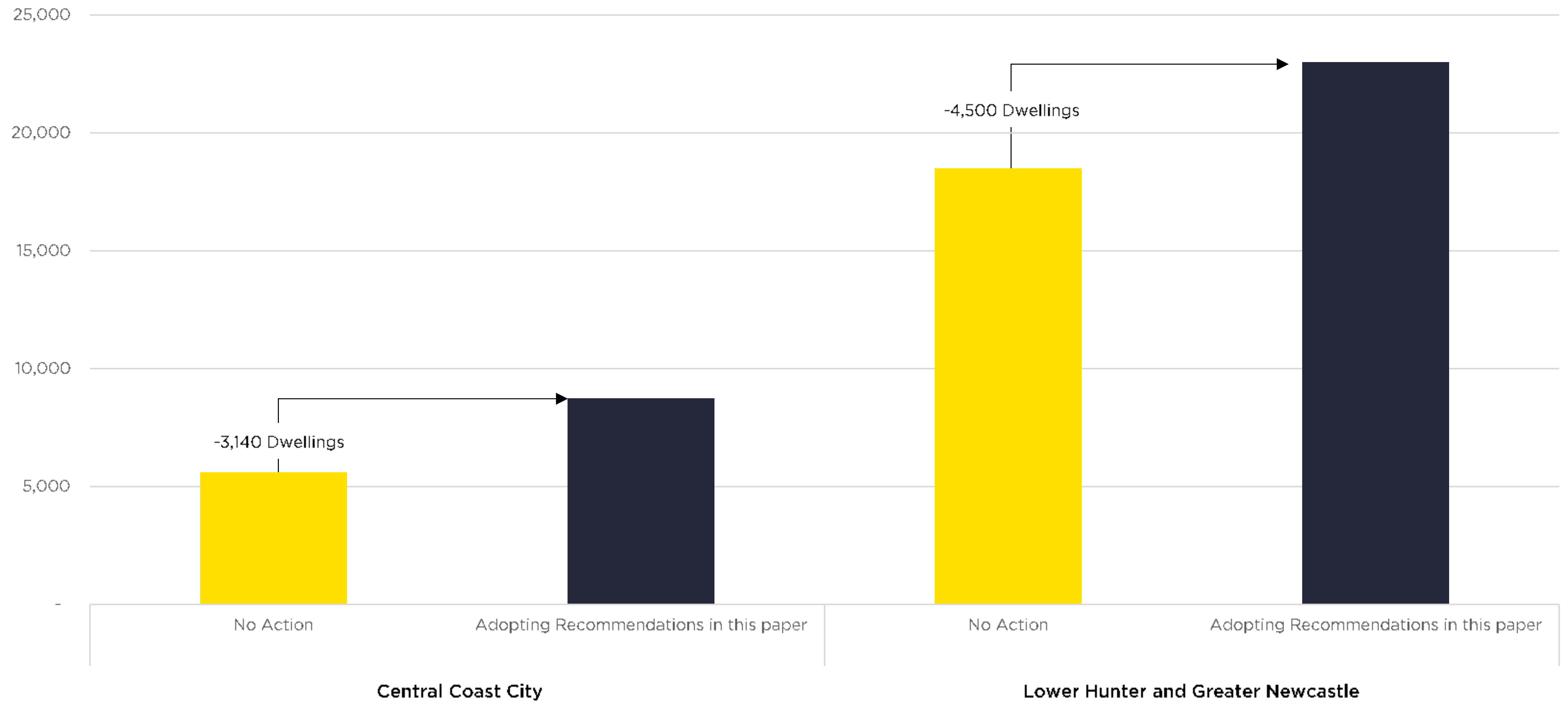

Figure 15 – Forecasting housing supply in Central Coast City and the Lower Hunter & Greater Newcastle City with and without action

The **cost of doing nothing**

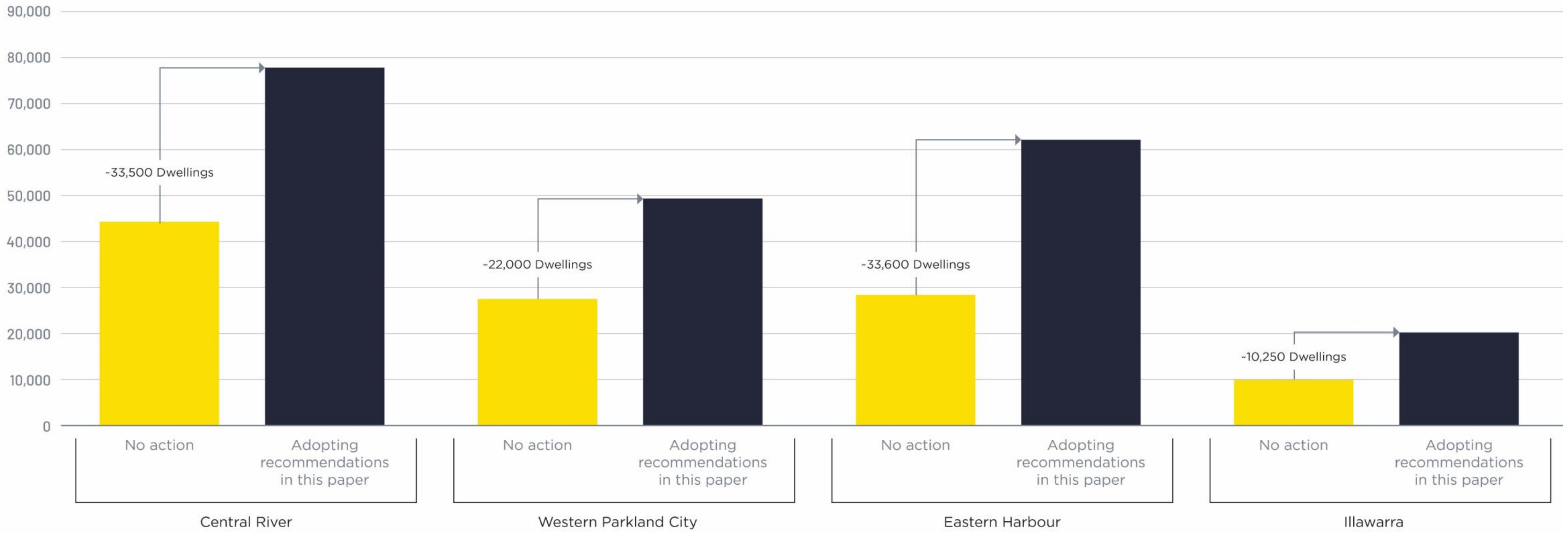

Figure 16 – Forecasting housing supply in Central River City, Western Parkland City, Eastern Harbour City and Illawarra-Shoalhaven City with and without action

What **actions need to be taken**

The Property Council recommends the NSW Government:

1. **Introduce a moratorium on new taxes and charges for the duration of the Housing Accord period**

The feasibility modelling by Savills indicates just the existing taxes and charges make many new residential developments in the Central Coast City, Lower Hunter & Greater Newcastle City, Central River City, Western Parkland City, Eastern Harbour City and Illawarra-Shoalhaven City unfeasible. The development industry has broadly come to terms with the requirement for 2 per cent contributions for Affordable Housing where development uplift is provided under the Transport Oriented Development State Environment Planning Policy – but have concerns about the practical implementation of this charge. However, there is no capacity to absorb new taxes and charges with many new residential developments already unfeasible.

2. **Suspend DSP and HPC charges for the duration of the Housing Accord period.**

The feasibility forecasting by Savills indicates planned increases in taxes and charges on residential development have impacted present day feasibilities and will make many residential developments even more unfeasible in 2026. The NSW Government is currently discounting Sydney Water & Hunter Water DSP charges and HPCs, however the phased introduction of these will result in charges more than doubling by 2026. Suspending DSP charges and HPCs would help make more apartment and greenfield developments in the Central Coast City, Lower Hunter & Greater Newcastle City, Central River City, Western Parkland City, Eastern Harbour City and Illawarra-Shoalhaven City feasible.

3. **Accelerate the implementation of planning processes that reduce planning approval timeframes to a maximum 9 months by December 2024 and a maximum 6 months by June 2025.**

It is often taking longer to get a new apartment or greenfield project approved than it takes to build. Long development approval timeframes in some Council areas and significant delays including getting approvals and infrastructure completed by Transport for NSW and water authorities are adding years and substantial costs to projects. Getting planning approvals just 6 months quicker makes a significant difference to development feasibility. Reducing planning approval timeframes by 6+ months makes a significant difference to development feasibility.

What **actions need to be taken**

4. Implement process and systems improvements to accelerate significant residential projects which demonstrably contribute to the delivery of Government's dwelling targets and Housing Accord commitments.

The scale and rates of development required to achieve the Housing Accord commitments require procedural, systemic and structural changes. Current planning approval timeframes are lengthy and uncertain, equating to approximately a third of the total 5-year Housing Accord period. These timeframes followed by a typical construction period bring into question the ability for NSW to achieve the Housing Accord commitments and the NSW Government's recently released housing targets. Efficiencies need to be found in the system to target a 6-month timeframe to ensure that significant and strategic residential projects which demonstrably boost supply can be determined and delivered expeditiously. Precedent shows that efficient planning approvals are achievable when effort, resources, processes and systems improvements reflect potential benefits and priorities.