Release the pressure:

Alleviating taxes and charges to build new homes

September 2024

ACKNOWLEDGEMENT OF COUNTRY

Savills acknowledges the Gadigal people of the Eora Nation as the traditional and continuing Custodians of the land on which Savills is located and operates. We pay respect to Elders past, present and emerging and recognise their cultural and ancestral connections to the land, skies and waters of the sites under investigation throughout this report.

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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)

Lower Hunter & Greater Newcastle City:
Infill feasibility results

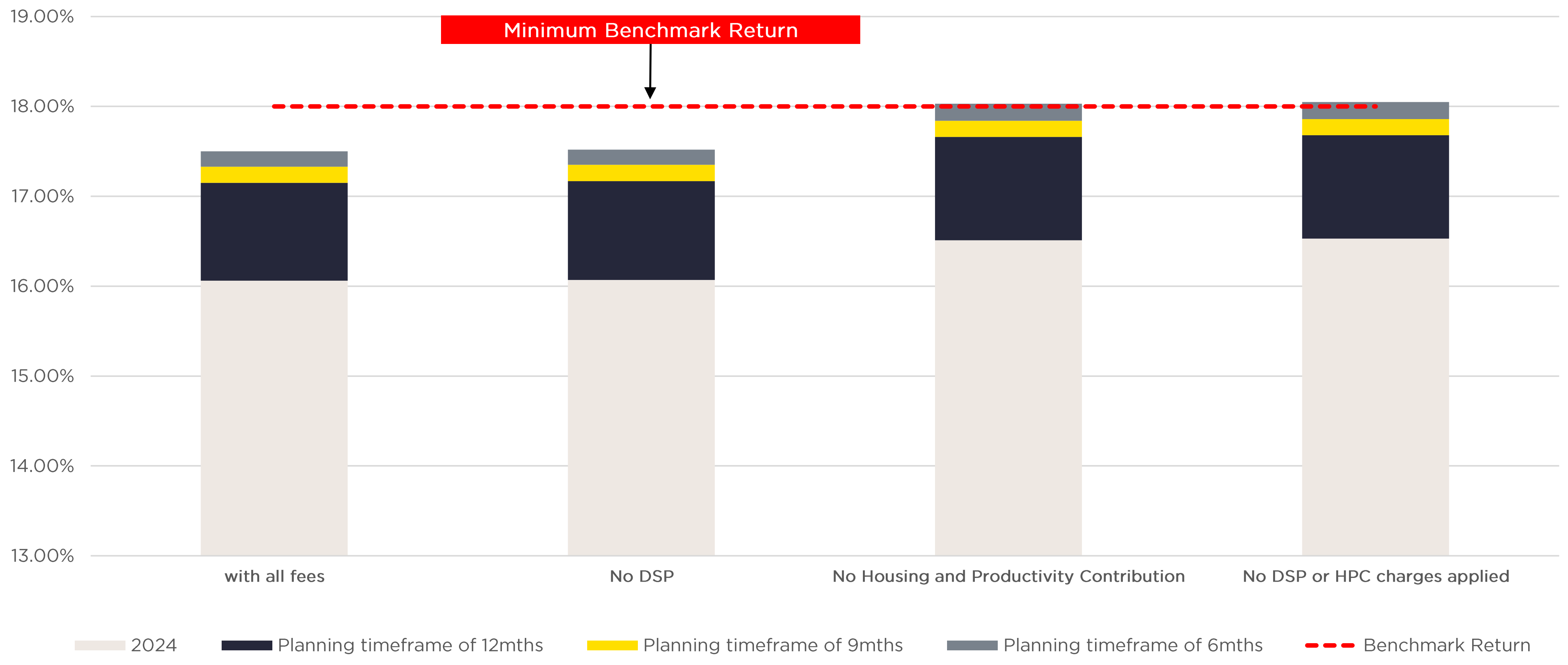


Figure 1 – The impact of changing State Government taxes and charges and faster planning approval timeframes c. 150-unit apartment project in Lower Hunter & Greater Newcastle City

Lower Hunter & Greater Newcastle City:
Greenfield feasibility results

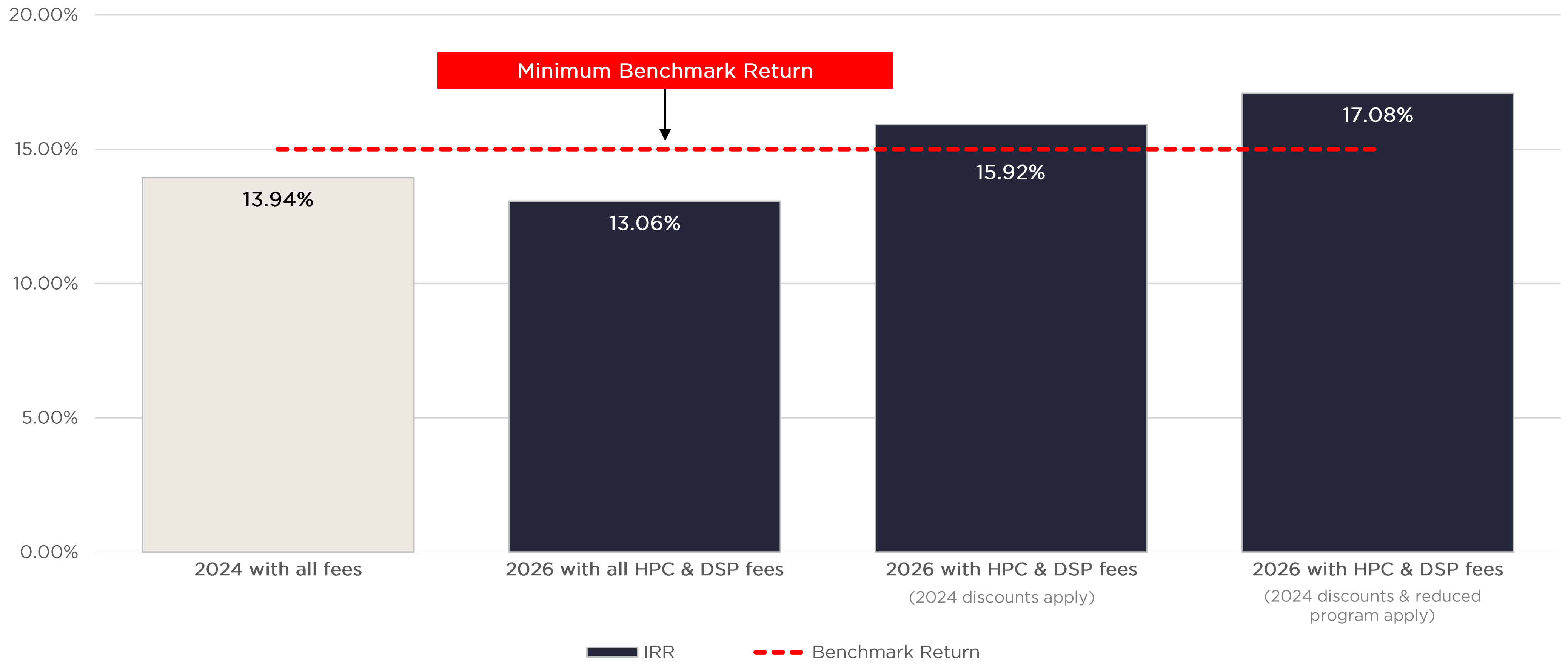


Figure 2 – Impact of changing taxes and charges and approval times in 2026 for a hypothetical Greenfield project in the Lower Hunter & Greater Newcastle City

Central Coast City:
Infill feasibility results

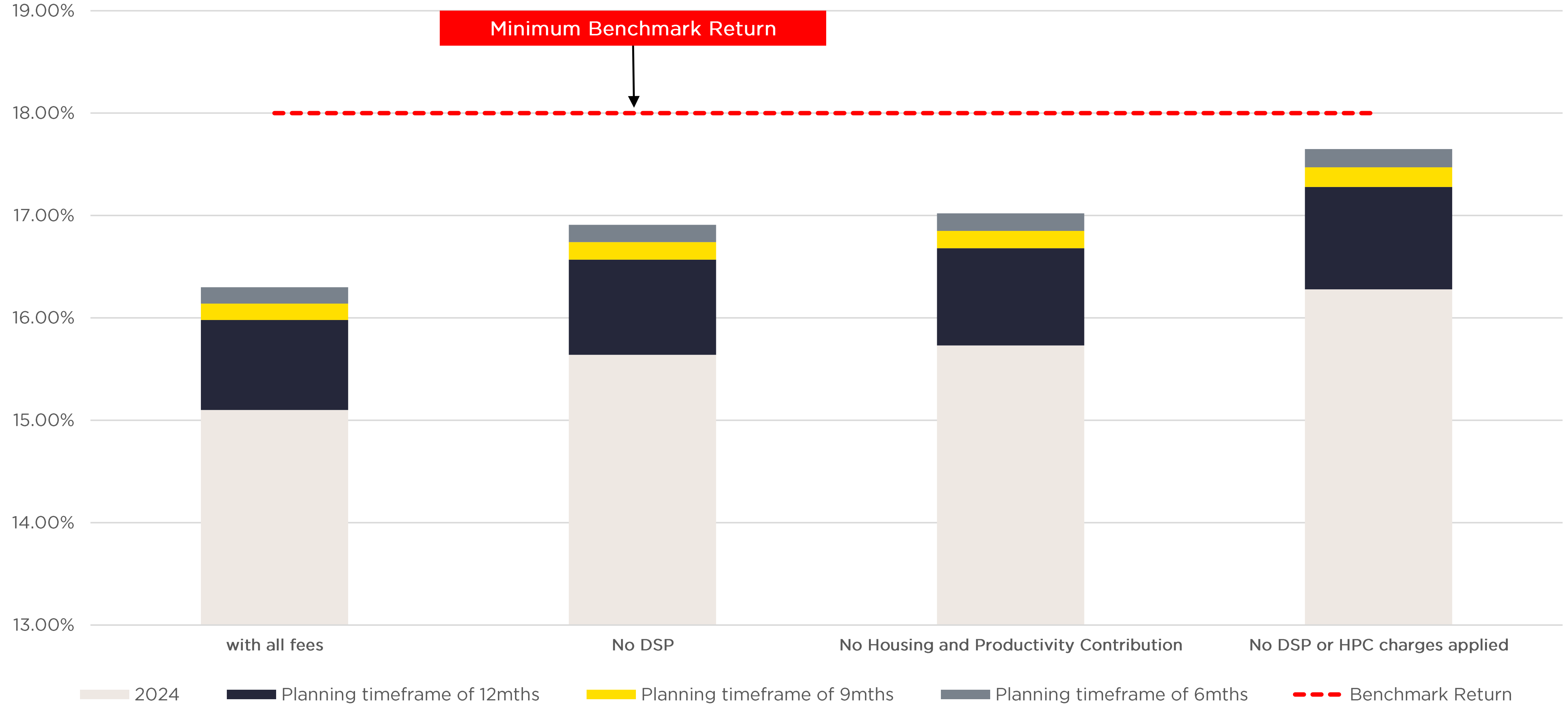


Figure 3: The impact of changing State Government taxes and charges 2024 and faster planning approval timeframes - 150-unit apartment project in Central Coast City

Central Coast City:
Greenfield feasibility results

Figure 4: Impact of changing taxes and charges and approval times in 2026 for a hypothetical Greenfield project in the Central Coast City

Eastern Harbour City:
Infill feasibility results

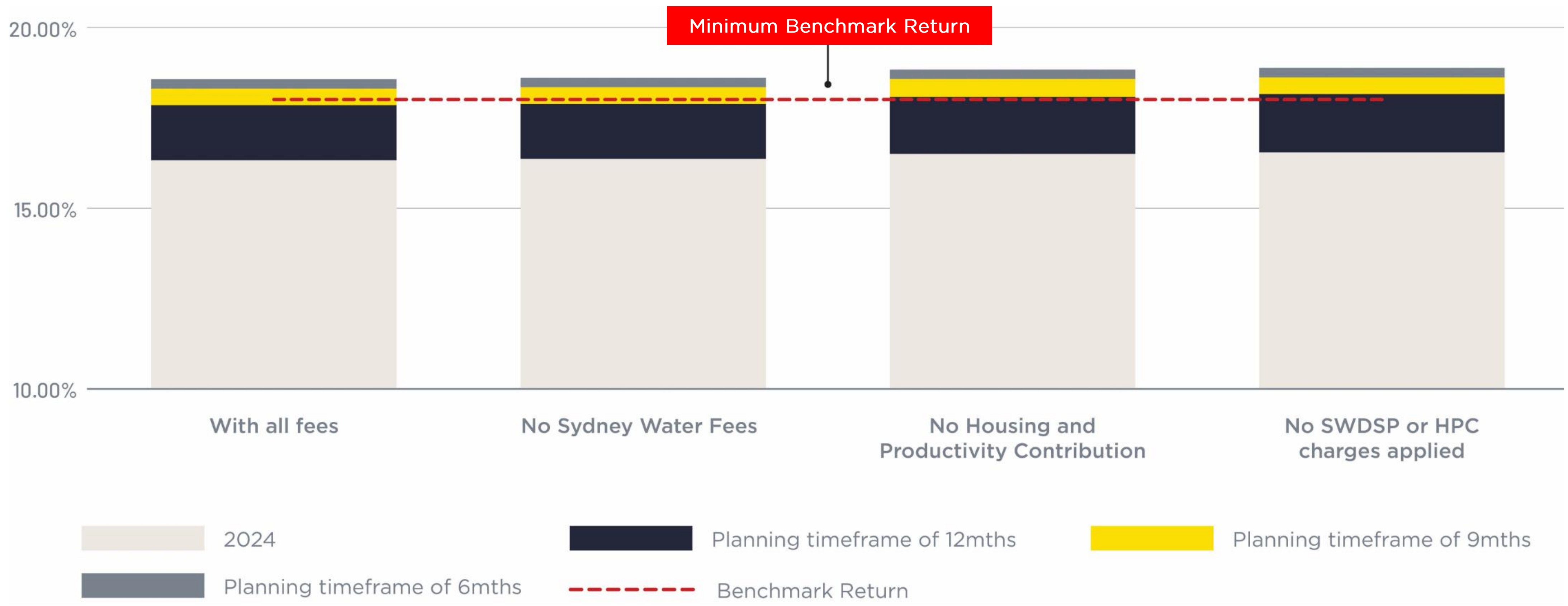


Figure 5 – The impact of changing State Government taxes and charges and faster planning approval timeframes c. 250-unit apartment project in Eastern Harbour City

Central River City:
Infill apartment feasibility

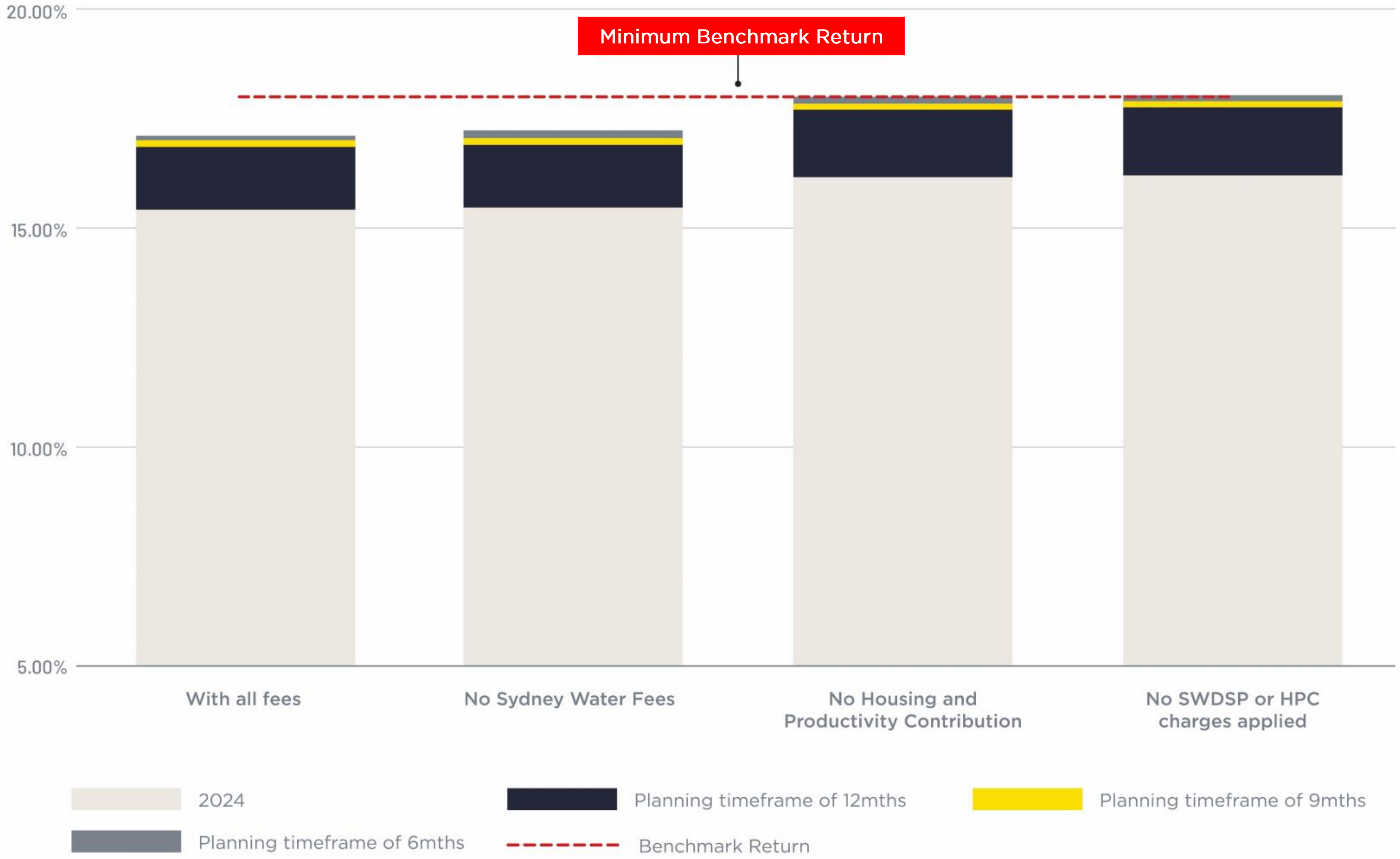


Figure 6 – The impact of changing State Government taxes and charges 2024 and faster planning approval timeframes c. 250-unit apartment project in Central River City

Central River City:
Greenfield feasibility results

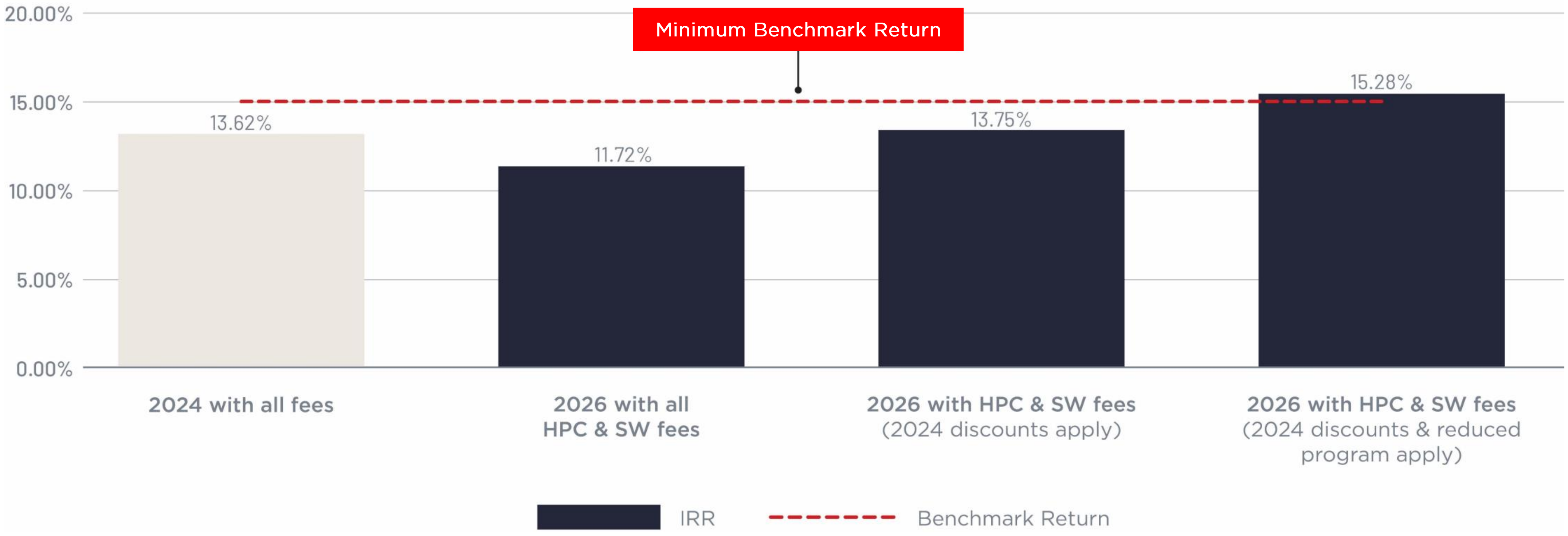


Figure 7 – Impact of changing taxes and charges and approval times in 2026 for a hypothetical Greenfield project in the Central River City

Western Parkland City:
Infill feasibility results

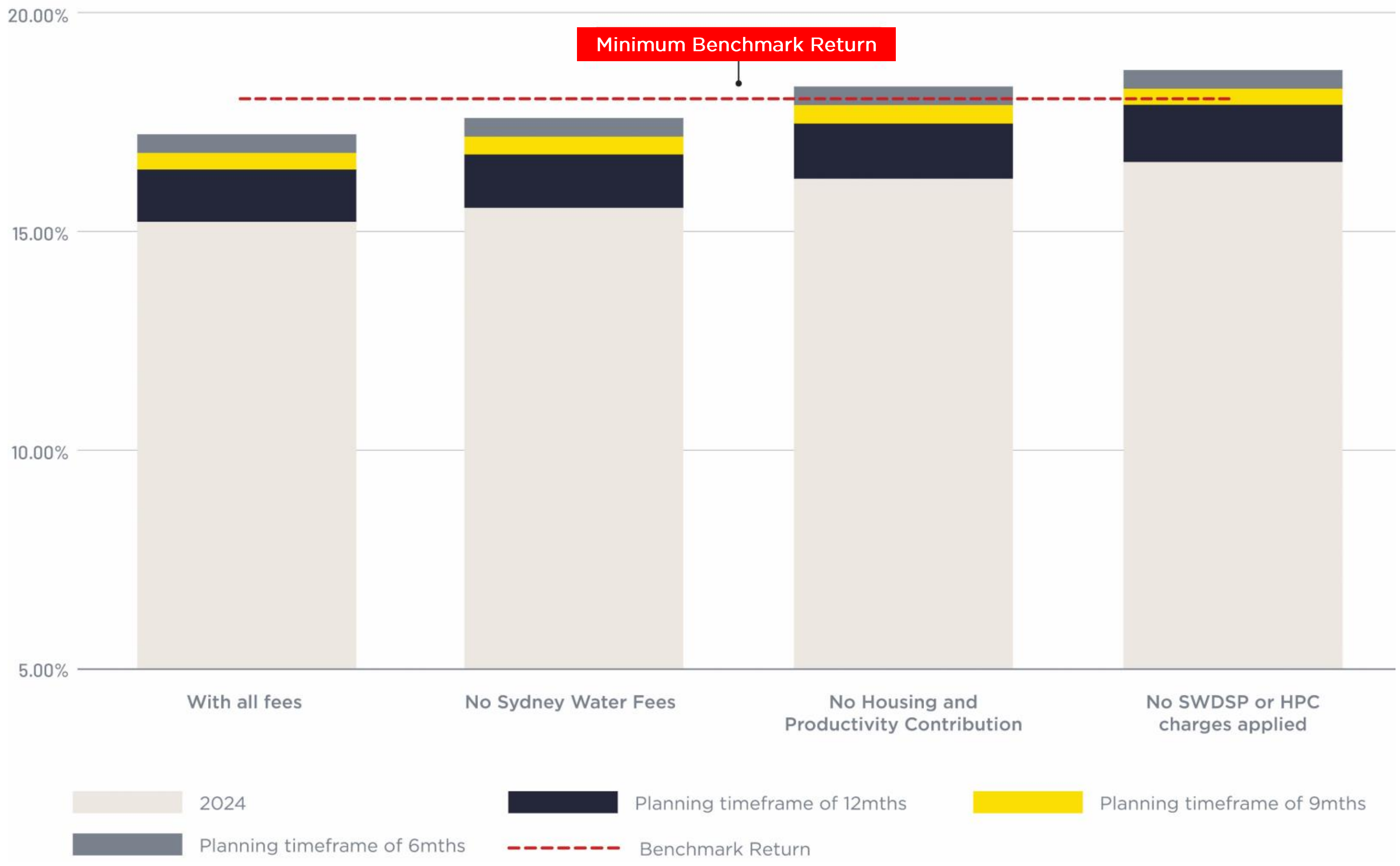


Figure 8: The impact of changing State Government taxes and charges 2024 and faster planning approval timeframes c. 250-unit apartment project in Western Parkland City

Western Parkland City:
Greenfield feasibility results

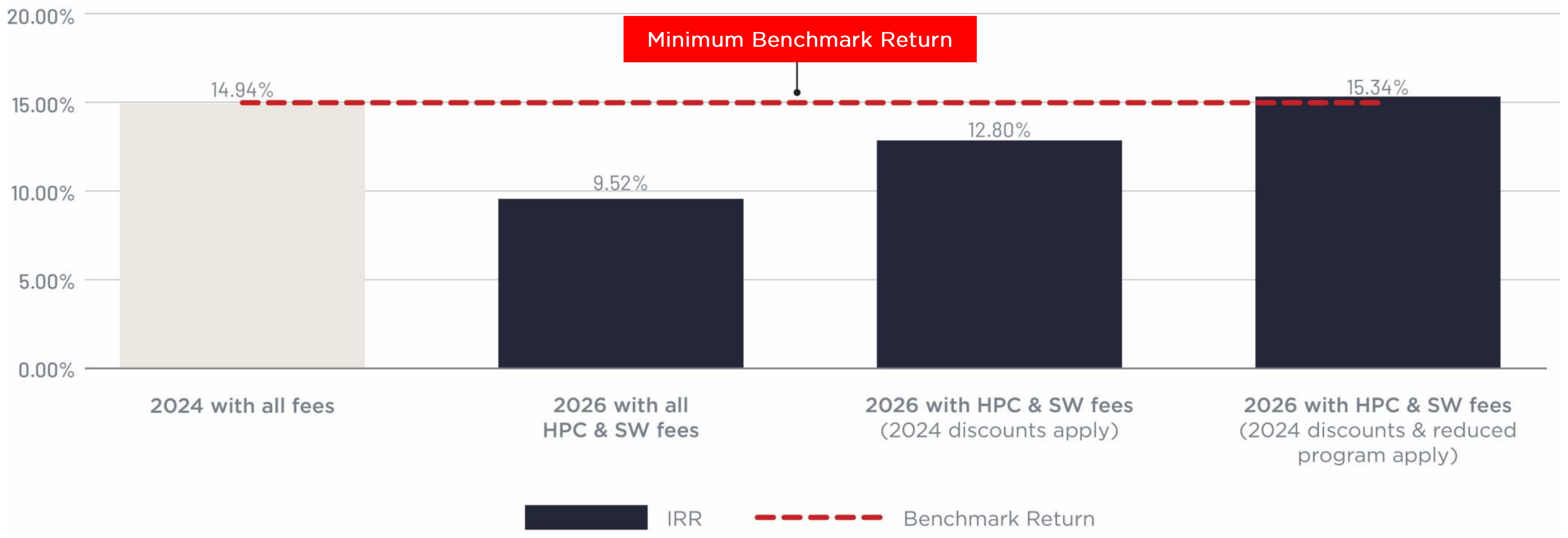


Figure 9: Impact of changing taxes and charges and approval times in 2026 for a hypothetical Greenfield project in the Western Parkland City

Illawarra-Shoalhaven City:
Infill feasibility results

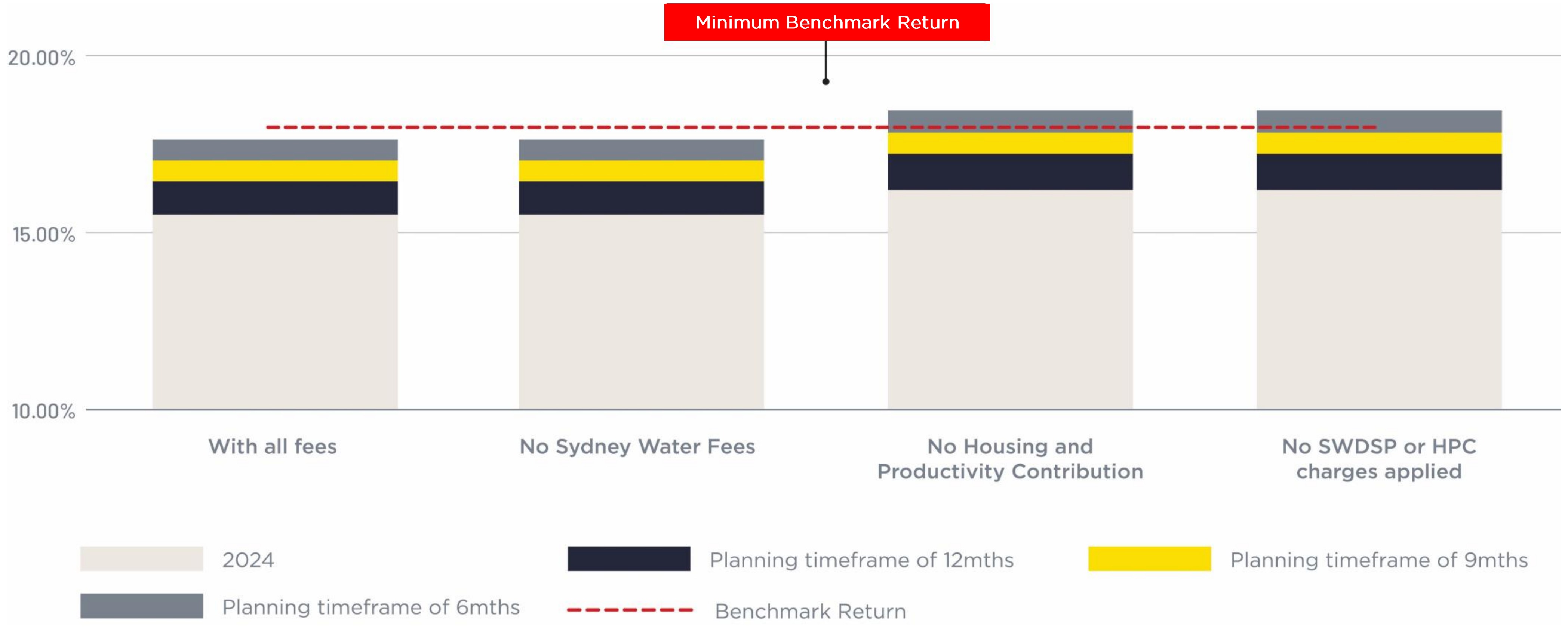


Figure 10: The impact of changing State Government taxes and charges 2024 and faster planning approval timeframes c. 80-unit apartment project in Illawarra-Shoalhaven City

Illawarra-Shoalhaven City:
Greenfield feasibility results

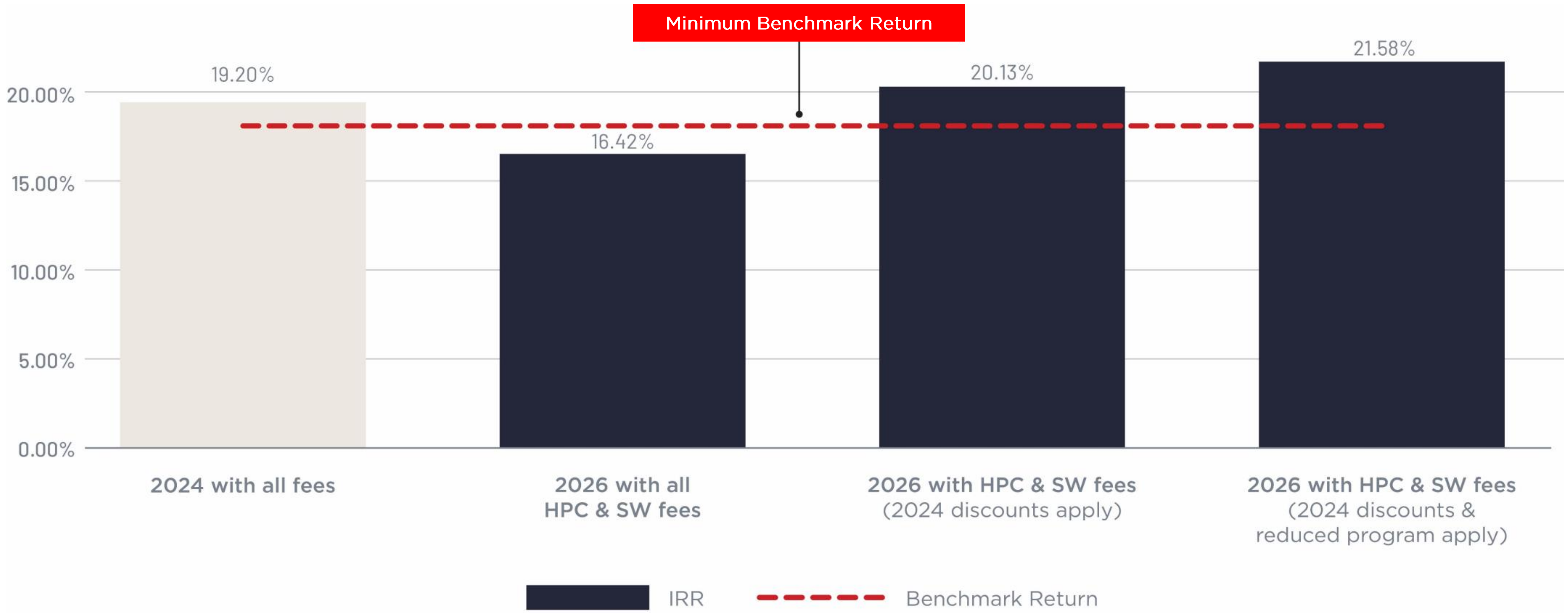


Figure 11: Impact of changing taxes and charges and approval times in 2026 for a hypothetical Greenfield project in the Illawarra-Shoalhaven City, including reducing planning timeframes to 9 months

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 benefit of **Government action**

EASTERN HARBOUR CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Eastern Harbour City would help deliver ~62,000 new homes.

- This is ~ 33,500 higher than a continuation of actual completions in 2022/23 (circa 28,000 extra dwellings forecast over 5 years).
- This is ~ 17,500 higher than the Sydney Housing Supply Forecast Low Scenario (circa 44,000 extra dwellings forecast over 5 years).
- This is ~ 8,000 higher than the SHSF High Scenario (circa 54,000 extra dwellings forecast over 5 years).

CENTRAL RIVER CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Central River City would help deliver ~77,500 new homes.

- This is ~ 33,500 higher than a continuation of actual completions in 2022/23 (circa 44,000 extra dwellings forecast over 5 years).
- This is ~ 21,000 higher than the Sydney Housing Supply Forecast Low Scenario (circa 56,500 extra dwellings forecast over 5 years).
- This is ~ 11,000 higher than the SHSF High Scenario (circa 66,500 extra dwellings forecast over 5 years).

WESTERN PARKLAND CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Western Parkland City would help deliver ~ 50,000 new homes.

- This is ~ 16,000 higher than a continuation of actual completions in 2022/23 (circa 34,000 extra dwellings forecast over 5 years).
- This is ~ 19,500 higher than the Sydney Housing Supply Forecast Low Scenario (circa 30,500 extra dwellings over 5 years), which is even lower than a continuation of 2022/23 which had the lowest completions in years).
- This is ~ 16,500 higher than the SHSF High Scenario (circa 33,500 over 5 years), which is around the same as a continuation of the number of completions in 2022/23, which had the lowest completions in years.
- Savills' view is our forecast for the Western Parkland City could potentially be higher, however we are concerned that getting more sites serviced is currently taking a long time.

ILLAWARRA / SHOALHAVEN

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Illawarra-Shoalhaven City would help deliver ~20,000 new homes.

- This is ~ 10,250 higher than a continuation of actual completions in 2022/23 (circa 9,750 extra dwellings forecast over 5 years).
- This is ~ 13,250 higher than the Sydney Housing Supply Forecast (circa 22,775 extra dwellings over 5 years).
- Savills' view is our forecast for the Illawarra-Shoalhaven could potentially be higher, however we are concerned that getting Development Applications approved and more sites serviced is currently taking a long time.

The benefit of **Government action**

CENTRAL COAST CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Central Coast City would help deliver ~8,750 new homes.

- This is ~ 3,140 higher than a continuation of “Business as usual” (circa 5,600 extra dwellings forecast over 5 years).
- This is ~ 119 higher than the Housing Supply Forecast (circa 8,631 extra dwellings forecast over 5 years).

LOWER HUNTER & GREATER NEWCASTLE CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Lower Hunter & Greater Newcastle City would help deliver ~23,000 new homes.

- This is ~ 4,500 higher than a continuation of “Business as usual” (circa 18,500 extra dwellings forecast over 5 years).
- This is ~ 2,440 higher than the Housing Supply Forecast (circa 20,560 extra dwellings forecast over 5 years).

The benefit of **Government action**

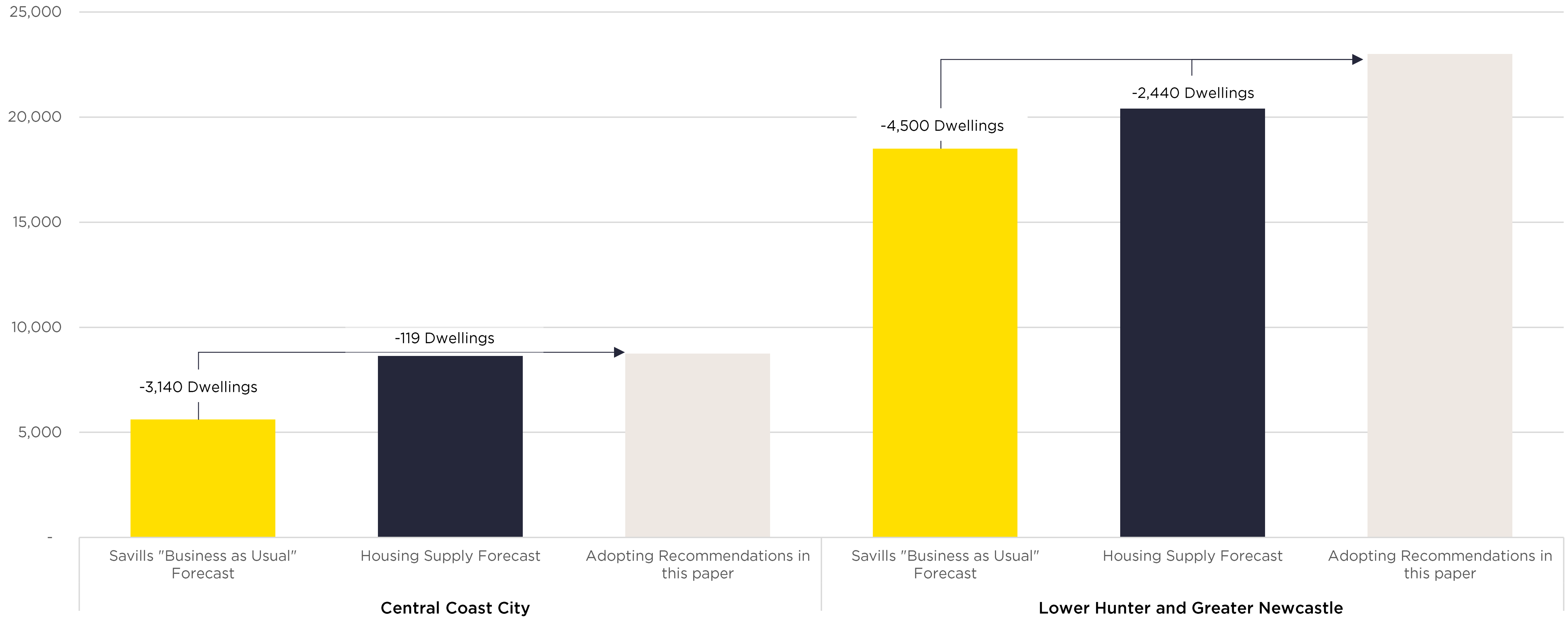


Figure 12 – The Forecast impact on housing supply of reducing State Government taxes and charges and faster planning approvals in Central Coast City and Lower Hunter & Greater Newcastle City

- 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 benefit of **Government action**

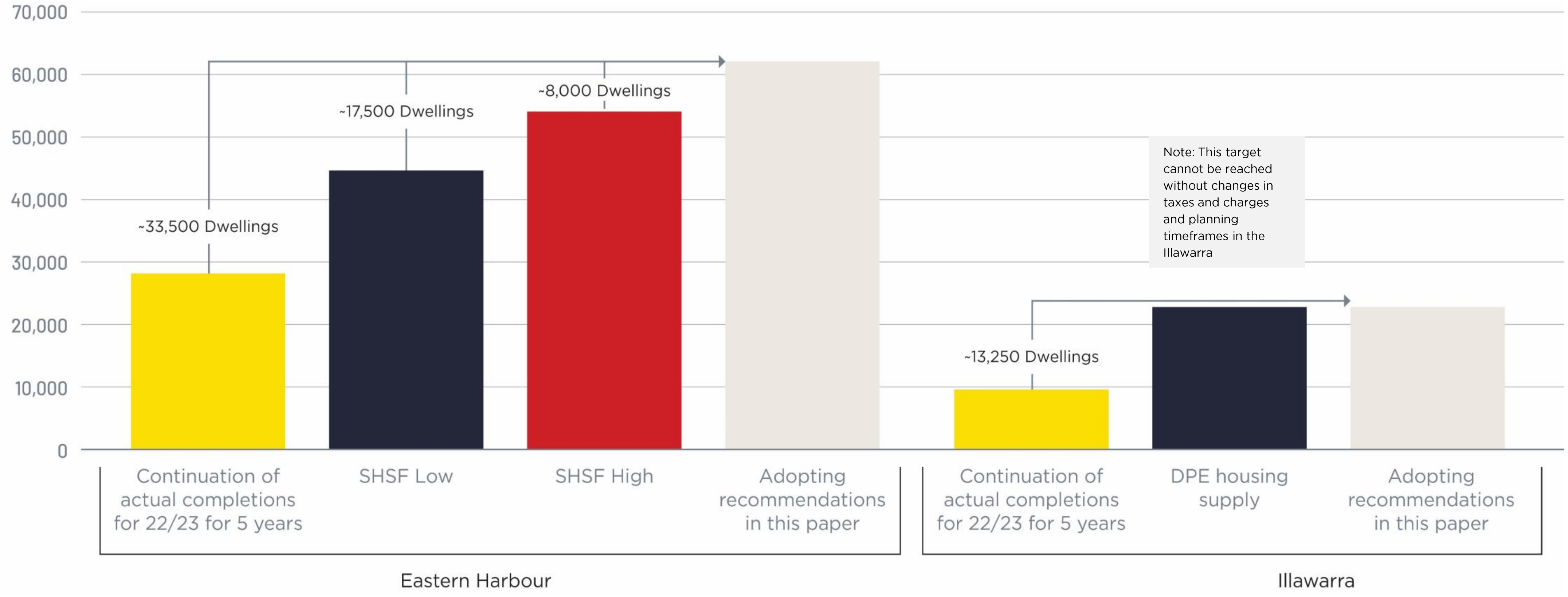


Figure 13 – The forecast impact on housing supply of reducing State Government taxes and charges and faster planning approval timeframes in Eastern Harbour City and Illawarra-Shoalhaven City

The benefit of **Government action**

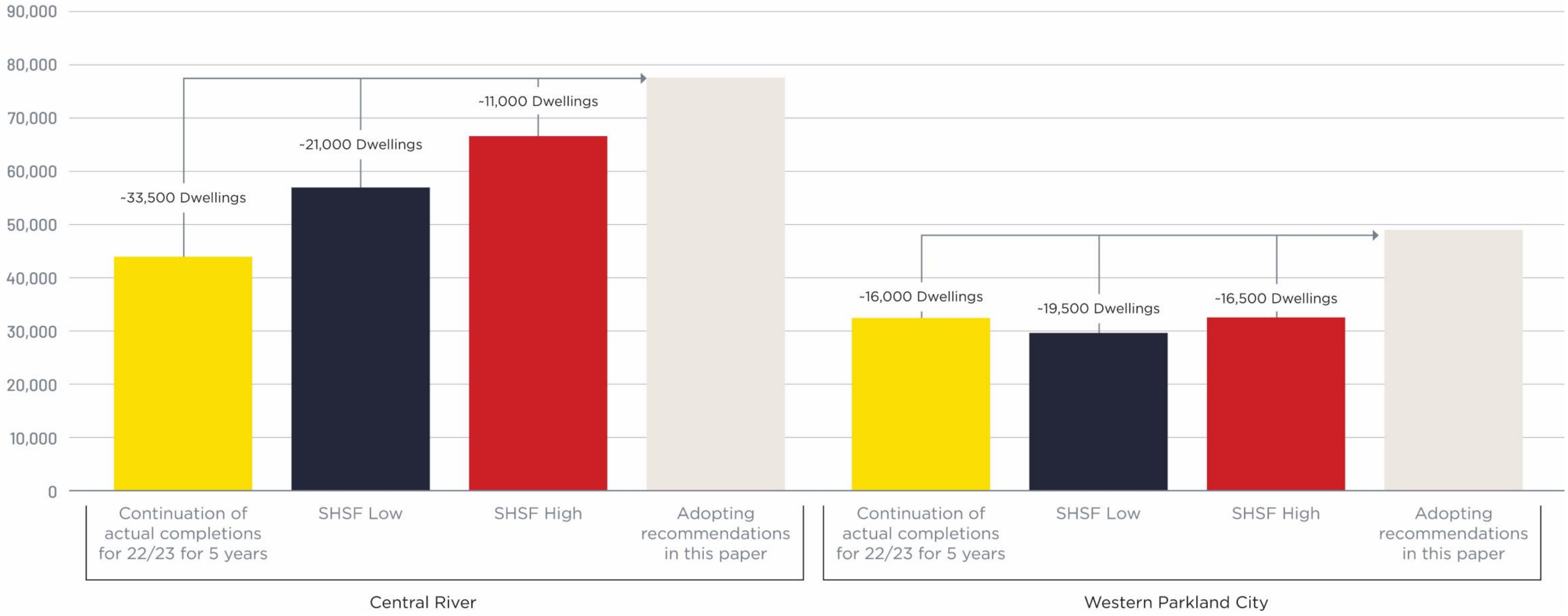


Figure 14 – The forecast impact on housing supply of reducing State Government taxes and charges and faster planning approval timeframes in Central River City and Western Parkland City

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**

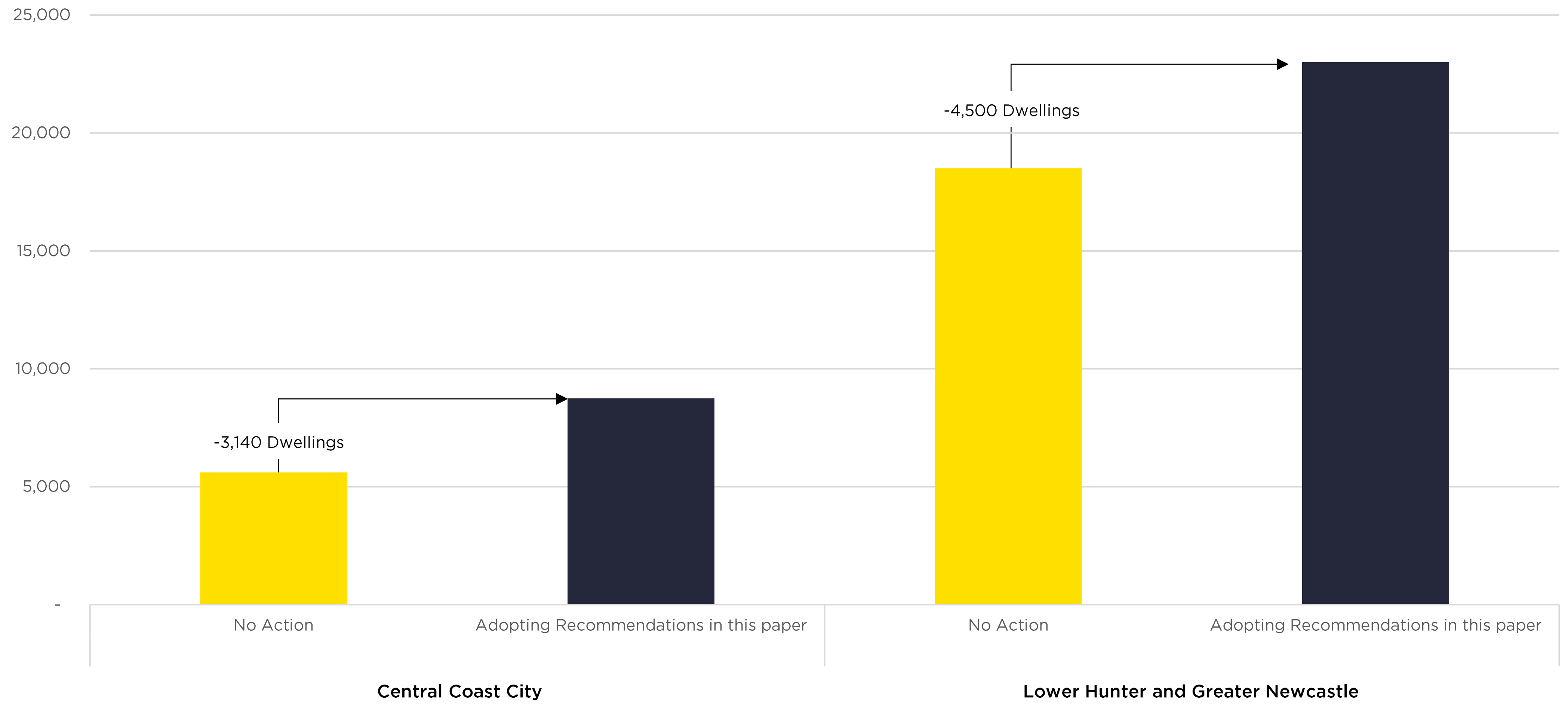


Figure 15 – Forecasting housing supply in Central Coast City and the Lower Hunter & Greater Newcastle City with and without action

The **cost of doing nothing**

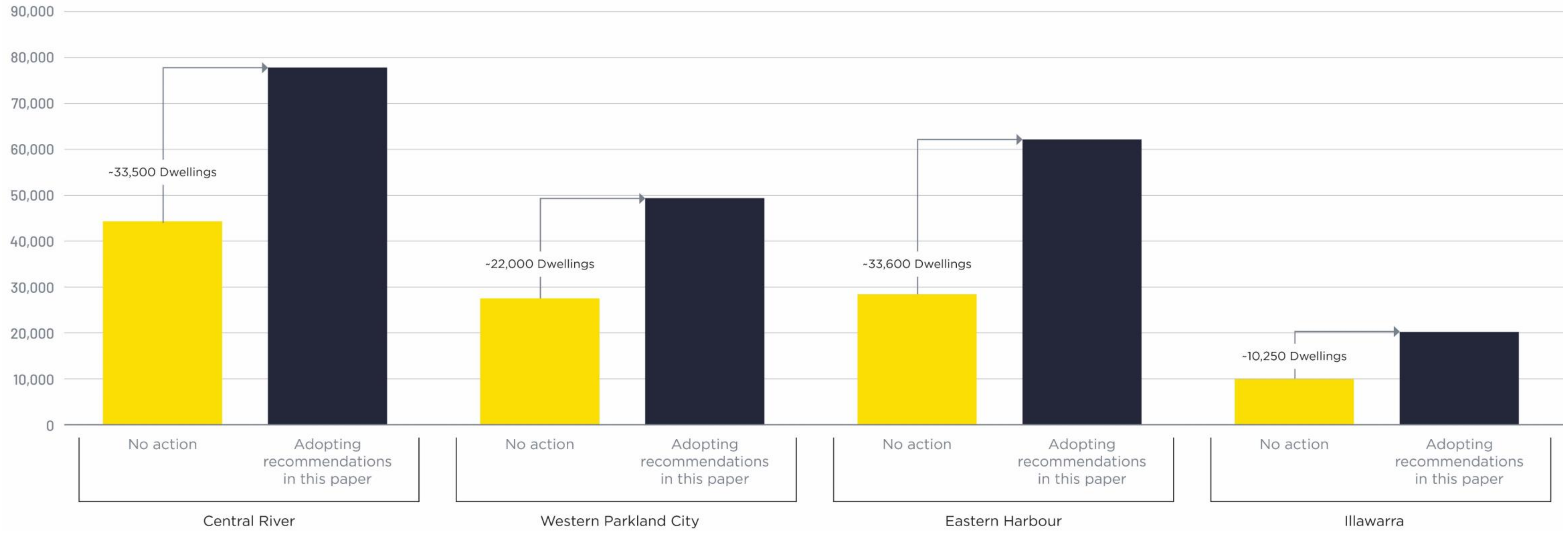


Figure 16 – Forecasting housing supply in Central River City, Western Parkland City, Eastern Harbour City and Illawarra-Shoalhaven City with and without action

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.

01

RELEASE THE PRESSURE

Introduction

Introduction

Background

New South Wales is Australia's premier state – we have the largest economy, the largest population and attract the most tourists[1]. We also have a severe housing crisis. There is not enough housing being built and housing is becoming even more unaffordable. These housing problems are particularly bad in Sydney, the Illawarra, the Lower Hunter and the Central Coast (the Six Cities Region) where almost 80% of the population lives[2].

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.

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. 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[3].**

Initial interventions relied on financial levers such as reducing the size of mortgage deposits, increasing stamp duty concessions and expanding eligibility for the First Home Buyers Scheme and directly subsiding purchases through schemes such as the First Homeowner's Grant. At the same time, new taxes and charges on residential development and existing taxes have increased significantly.

Many taxes and charges increase with inflation which has grown at 3.6% per annum **while median prices for units have increased by only 1.5% per annum in the last five years[4].**

New housing completions combined – across 43 Local Government Areas in Sydney, Central Coast, Lower Hunter and Illawarra - Shoalhaven – are at their lowest rate for over a decade and are not keeping up with demand. This has resulted in a housing shortfall of over 40,000 dwellings over the past 5 years[5].

In August 2023, the National Cabinet, including NSW Government, agreed to a new National Housing Accord (Housing Accord) target to build 1.2 million new dwellings over 5 years from 1 July 2024 to 30 June 2029. Under the Housing Accord, the NSW Government has a goal to deliver:

- 377,000 extra homes or 75,400 each year in NSW; and
- 322,000 extra homes or 64,400 each year the Six Cities Region.

Government forecasts for the Six Cities Region show dwelling completions significantly below the Housing Accord Target. Supply forecast data indicates there is the potential to deliver around 182,000 extra homes or around 36,400 extra homes each year, which is at least 100,000 homes short of Housing Accord targets over the next 5 years[6].

Introduction

The NSW Government is introducing welcome policies to combat the housing crisis, including Transport Oriented Development and the Low and Mid-Rise Housing reforms. However, given the scale of the historic shortfall and agreed targets in the Housing Accord, urgent additional action is needed to help industry deliver more well-located and more affordable homes in the right locations.

Essential infrastructure is critical to support communities. However, the combined impacts of housing, cost-of-living, and construction crisis is not the time to place additional taxes and levies on an industry struggling to deliver a once-in-a-generation ask to deliver more homes than ever before. Procedural, systemic and structural change is required to remove identified barriers and impediments to empower the industry to deliver the housing committed under the Housing Accord.

The implementation of the Housing Accord relies on an optimal regulatory and operating environment within which market and affordable housing can be boosted and accelerated. The NSW Government has limited direct impact on construction costs, consultant's fees or interest rates, which are set in a competitive market or via lenders.

The NSW Government can however have a major direct impact on government fees and charges applied to residential property development. These costs on homes have been rising as new taxes are introduced and existing charges increase rapidly with inflation. This is reducing project feasibility and contributing to the state's housing crisis.

To respond to the current crisis, 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.

Report Purpose

The report aims 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 instalment of the report, *Release the Pressure No. 1* (10 May 2024), examined the impact of taxes and charges on residential development feasibility in two locations, which 'traditionally' have been strong contributors to new housing in Sydney:

- Central River City (Parramatta, The Hills, Canterbury Bankstown, Cumberland, Blacktown and Georges River Local Government Areas); and
- Western Parkland City (Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Liverpool, Penrith and Wollondilly Local Government Areas).

Introduction

Release the Pressure No. 2 examined a further two locations, being:

- Eastern Harbour City (Bayside, Burwood, Canada Bay, Hornsby, Hunter's Hill, Inner West, Ku-ring-gai, Lane Cove, Mosman, North Sydney, Northern Beaches, Randwick, Ryde, Strathfield, Sutherland Shire, City of Sydney, Waverley, Willoughby and Woollahra Local Government Areas), which as a sub-region is forecast to deliver the highest number of dwelling targets under the NSW Housing Accord; and
- Illawarra – Shoalhaven City (Wollongong, Shellharbour, Kiama and Shoalhaven Local Government Areas).

Release the Pressure No. 3, being the final instalment, examines:

- 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 the Newcastle and Lake Macquarie LGAs).

Figure 17 – Greater Sydney Six Cities

Our **methodology**

Figure 18 outlines the process and key steps we have undertaken during the preparation of this Report.

01	Summarise residential activity	Data collection and validation of forecasts, approvals and completions. Key growth areas/ precincts confirmed.
02	Define the typical development process	Identify key steps and their duration from site selection to delivery.
03	Identify applicable taxes and charges	Identify the number, type and amount of taxes and charges.
04	Determine average costs and revenues	Determine indicative average construction costs and revenues for residential development.
05	Establish hypothetical development scenarios	Establish the hypothetical developments to be tested in each of the six cities regions and input into Estate Master.
06	Undertake industry engagement	Engage with residential developers to validate the assumptions adopted under Steps 02 – 05. Refine Estate Master models.
07	Run modelling scenarios	Run Estate Master models testing different scenarios with and without taxes and charges
08	Refine modelling results	Address feedback from Property Council and refine models as required
09	Reporting and publication	Document and assess results

Figure 18 – Methodology

02

RELEASE THE PRESSURE

Housing Snapshot

Central Coast City:
Housing supply and demand

The NSW Government has set the following dwelling targets for the Central Coast City in recent years:

Period	Dwellings	Avg per annum
Central Coast Local Housing Strategy (July 2021-June 2041)	32,600	1,630
Housing Accord Dwelling Target (June 2024 – June 2029)	9,400	1,880

Source: Greater Cities Commission, DPHI and Savills adopting % of target to Central Coast City

The Central Coast City's most productive year was FY19 & FY20, when approximately 3,422 dwellings were completed (circa 1,700 p.a.). This same 24-month period is the only time that Central Coast City met the dwelling target set by the NSW Government with ~170 more dwellings completed than the target of 1,626 dwellings per annum.

The factors contributing to higher completions in FY19 & FY20 included lower taxes and charges on development than today, a static interest (cash) rate since 2016, lower APRA lending restrictions and lower foreign investment restrictions.

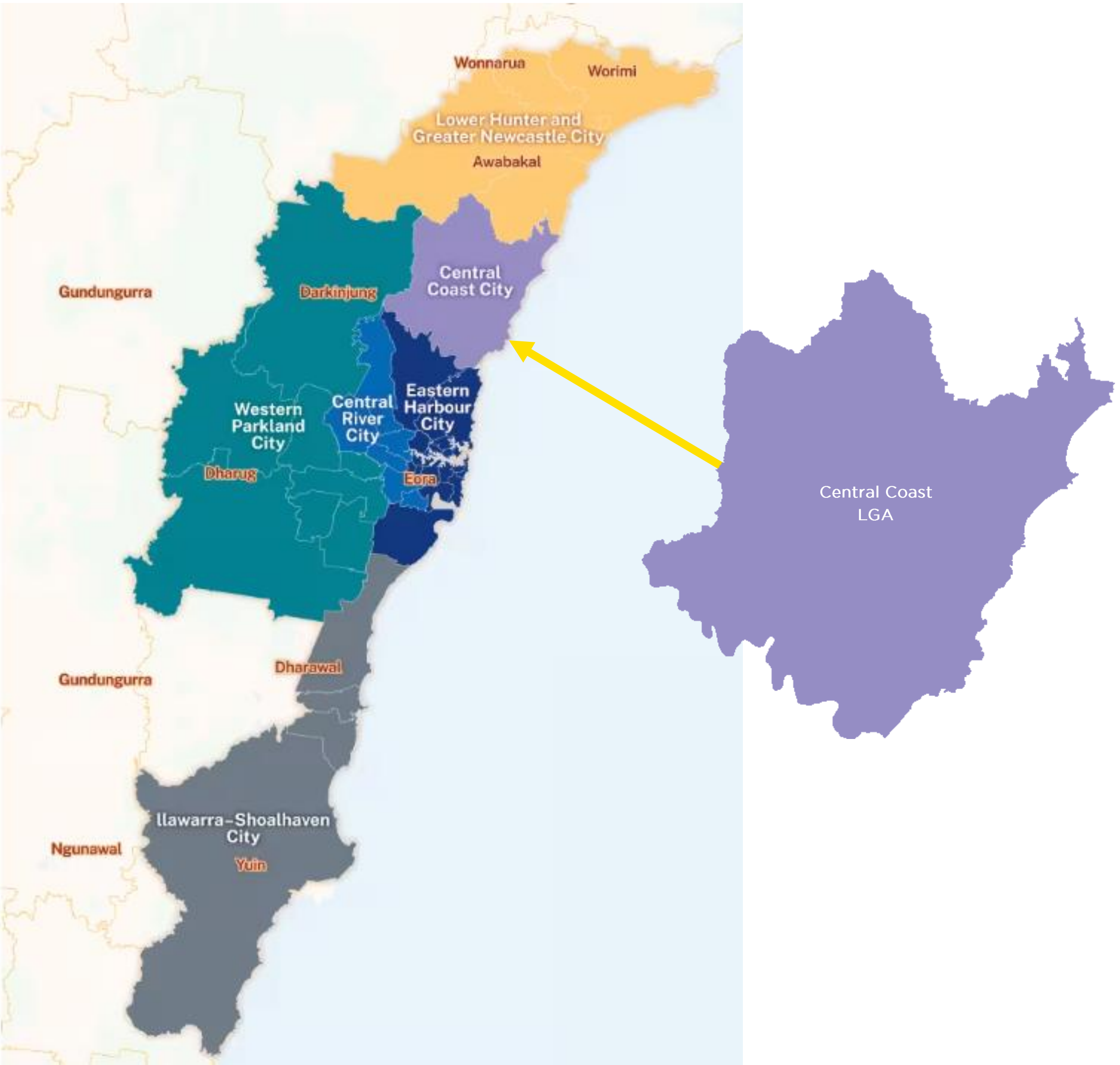


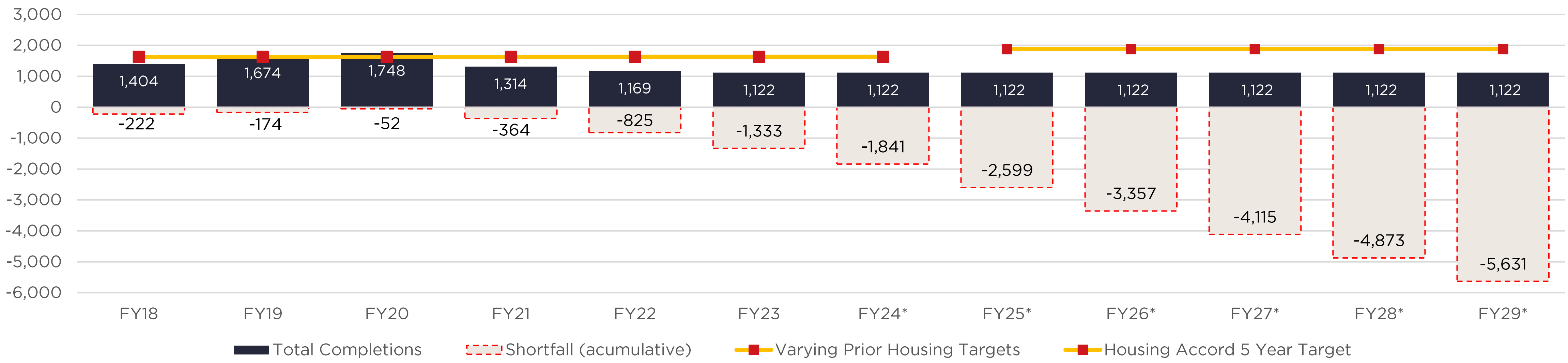
Figure 19– Central Coast City

Central Coast City:
Housing supply and demand

Since FY20, completions in the Central Coast City have consistently fallen short of the published dwelling targets.

The Draft Central Coast Local Housing Strategy forecasts demand for 1,630 extra dwellings per annum between 2021 and 2041, matching the Central Coast Regional Plan. However, recent housing completions have lagged behind demand, creating a shortfall exacerbated by COVID-19 and migration. Developers cite land shortages, environmental constraints, and slow approval processes as key impediments to delivering housing supply.

The State Government has set a new target of 9,400 new homes for the Central Coast from 30 June 2024 to 1 July 2029, or 1,880 homes per annum. **Savills projects that a lack of government action will result in only 5,609 net completions (1,122 per annum) during this period – a cumulative shortfall of over 5,600 dwellings**. However, Savills expects that reducing taxes, charges, and planning approval timeframes could increase this to 8,750 net completions (1,750 per annum), reducing the cumulative shortfall by over 3,000 dwellings by 30 June 2029.



Source: ABS, Greater Cities Commission and Savills

- Completions data from FY23 has been forecast by Savills based on a "business as usual" scenario
- DPHI 5 Year Housing Targets are Gross Completions

Figure 20 – Housing supply vs Government targets (Business As Usual Scenario)

Lower Hunter & Greater Newcastle City:
Housing supply and demand

The NSW Government has set the following dwelling targets for the Lower Hunter & Greater Newcastle City in recent years:

Period	Dwellings	Avg per annum
Hunter Regional Plan (July 2021-June 2041)	87,000	4,350
Housing Accord Dwelling Target (June 2024 – June 2029)	30,400	6,080

Source: Hunter Regional Plan, DPHI and Savills adopting % of target to Lower Hunter & Greater Newcastle City

The Lower Hunter & Greater Newcastle City's most productive year was FY19 (circa 4,600 dwellings completed) and FY21, (circa 4450 dwellings completed). These two periods are the only time that the Lower Hunter & Greater Newcastle City met the dwelling target set by the NSW Government with ~316 more dwellings completed than the target of 4,350 per year.

The factors contributing to higher completions in FY19 & FY21 included lower taxes and charges on development than today, a static interest (cash) rate since 2016, lower APRA lending restrictions and lower foreign investment restrictions.

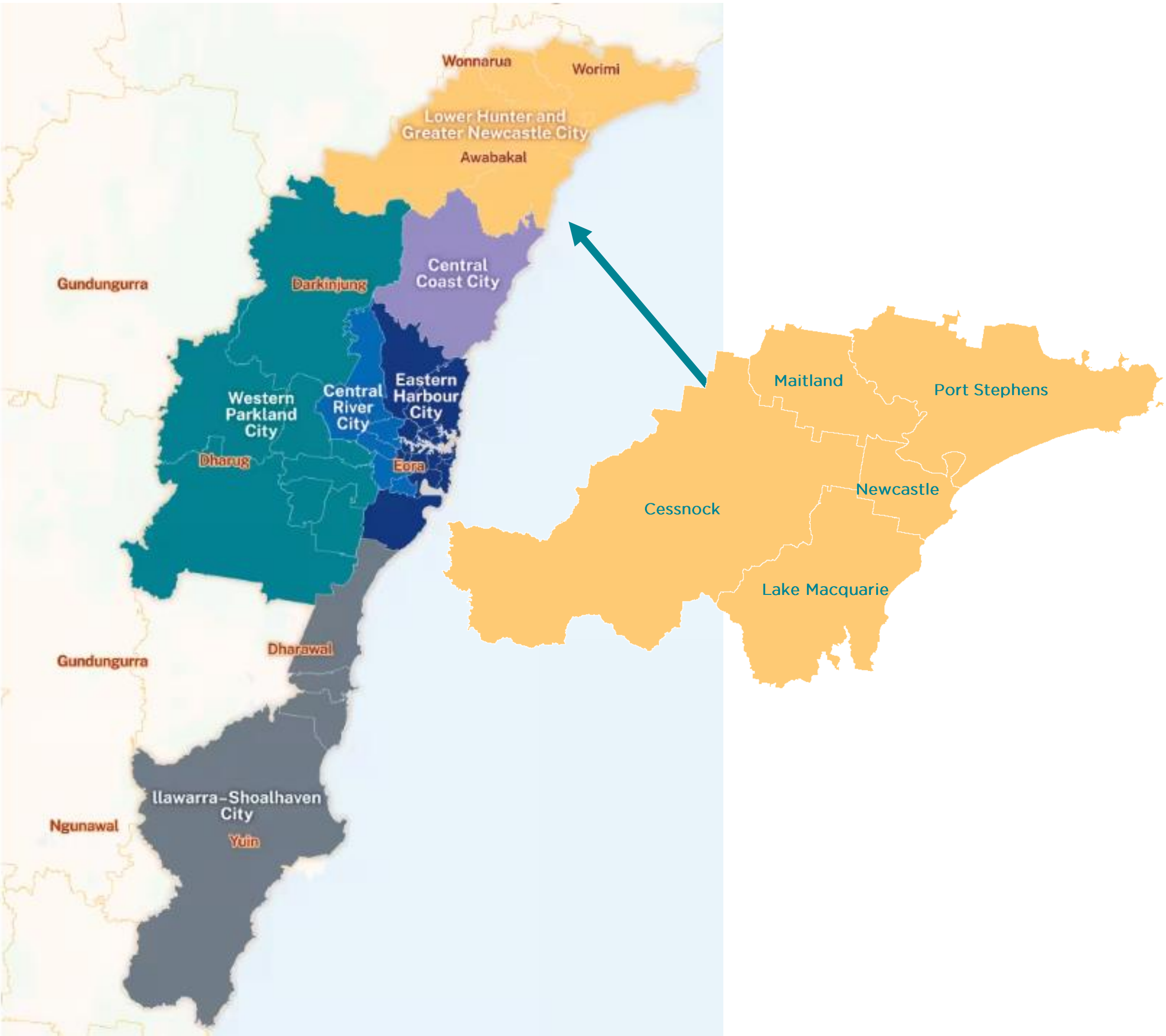


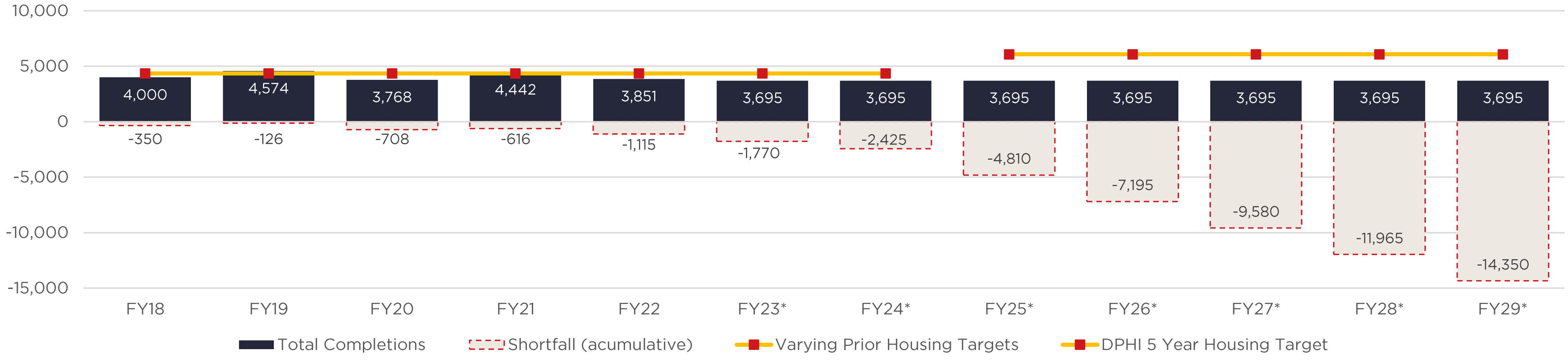
Figure 21 – Lower Hunter & Greater Newcastle City

Lower Hunter & Greater Newcastle City: **Housing supply and demand**

The Hunter Region Plan targets 87,000 extra homes by 2041 (4,350 per annum). From 2018-19 to 2022-23, the average number of net completions was 4127, falling short of the target by 223 dwellings per annum, with variations across LGAs.

The State Government has recently set a target of 30,400 new homes for the Lower Hunter & Greater Newcastle City between 30 June 2024 and 1 July 2029, or 6,080 homes per annum. **Savills projects that a lack of government action will result in only 18,477 net completions (3,695 per annum) – a cumulative shortfall of over 14,000 dwellings.**

However, Savills expects that reducing taxes, charges and planning approval timeframes could increase this to 23,000 net completions (4,600 per annum); while this still falls short of 30,400 gross completions targeted, additional density around high-frequency public transport and increased greenfield supply could close the gap.



Source: ABS, Greater Cities Commission and Savills

- Completions data from FY23 has been forecast by Savills based on a "business as usual" scenario
- DPHI 5 Year Housing Targets are Gross Completions

Figure 22 – Housing supply vs Government targets (Business As Usual Scenario)

Eastern Harbour City: **Housing supply and demand**

The NSW Government has set the following dwelling targets for the Eastern Harbour City in recent years:

Period	Dwellings	Avg per annum
5 Year Housing Target (16/17 – 20/21)	76,622	15,324
Housing Accord Dwelling Target (June 2024 – June 2029)	107,100	21,420
Previous 6-10 Year Housing Target (21/22 – 25/26)	71,533-73,083	14,307-14,617
Previous 20 Year Housing Target (16/17 – 35/36)	264,450	13,223

Source: Greater Cities Commission, DPHI and Savills adopting % of target to Eastern Harbour City

The Eastern Harbour City's most productive year was FY 17/18/19 when approximately 18,000 dwellings were completed. This same 24-month period is the only time that the Eastern Harbour City met the dwelling target set by the NSW Government with ~5,500 more dwellings constructed than the target of 15,540 dwellings per annum.

The factors contributing to higher completions in FY 17/18/19 included lower taxes and charges on development than today, a static interest (cash) rate since 2016, lower APRA lending restrictions and lower foreign investment restrictions.

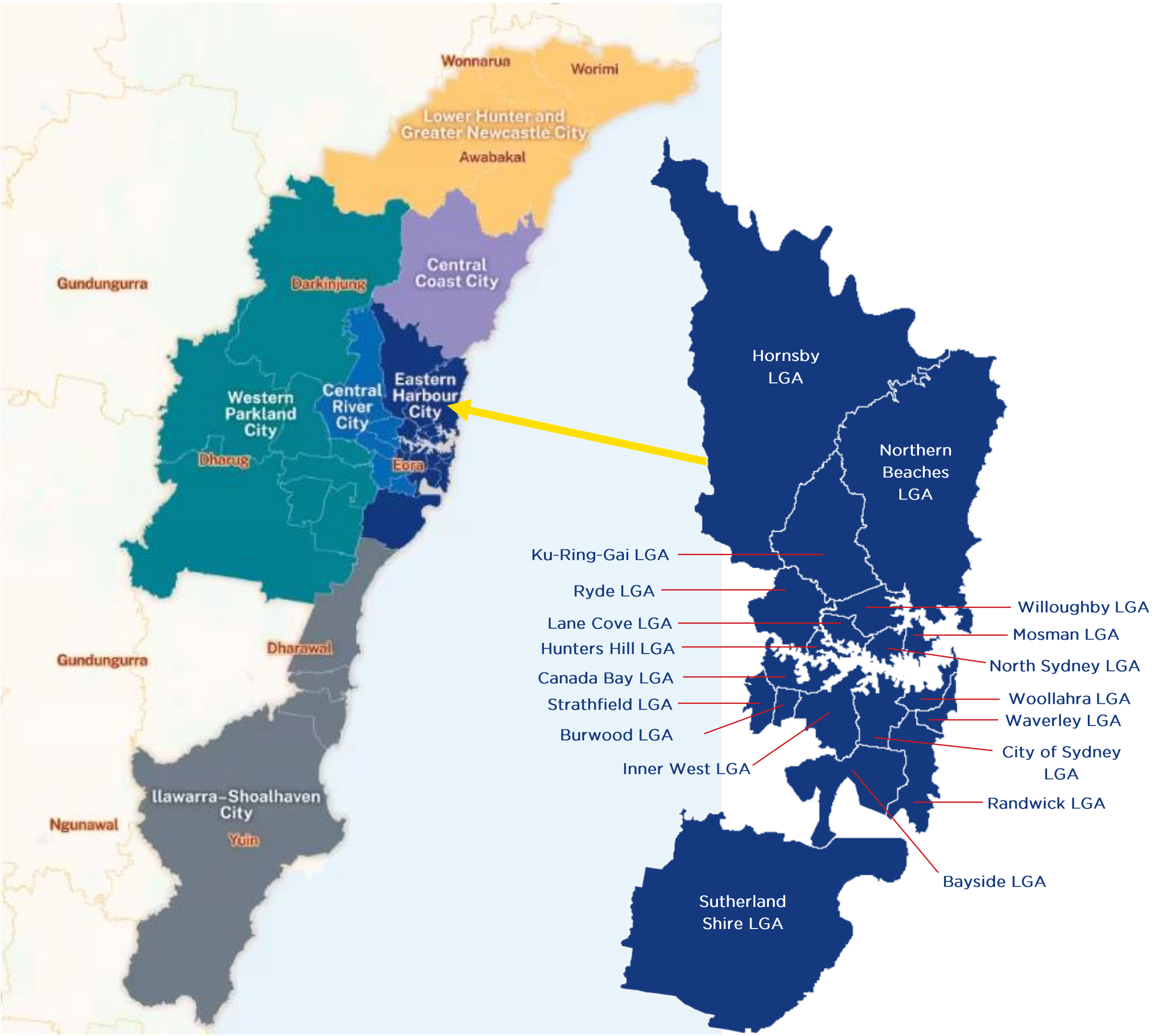


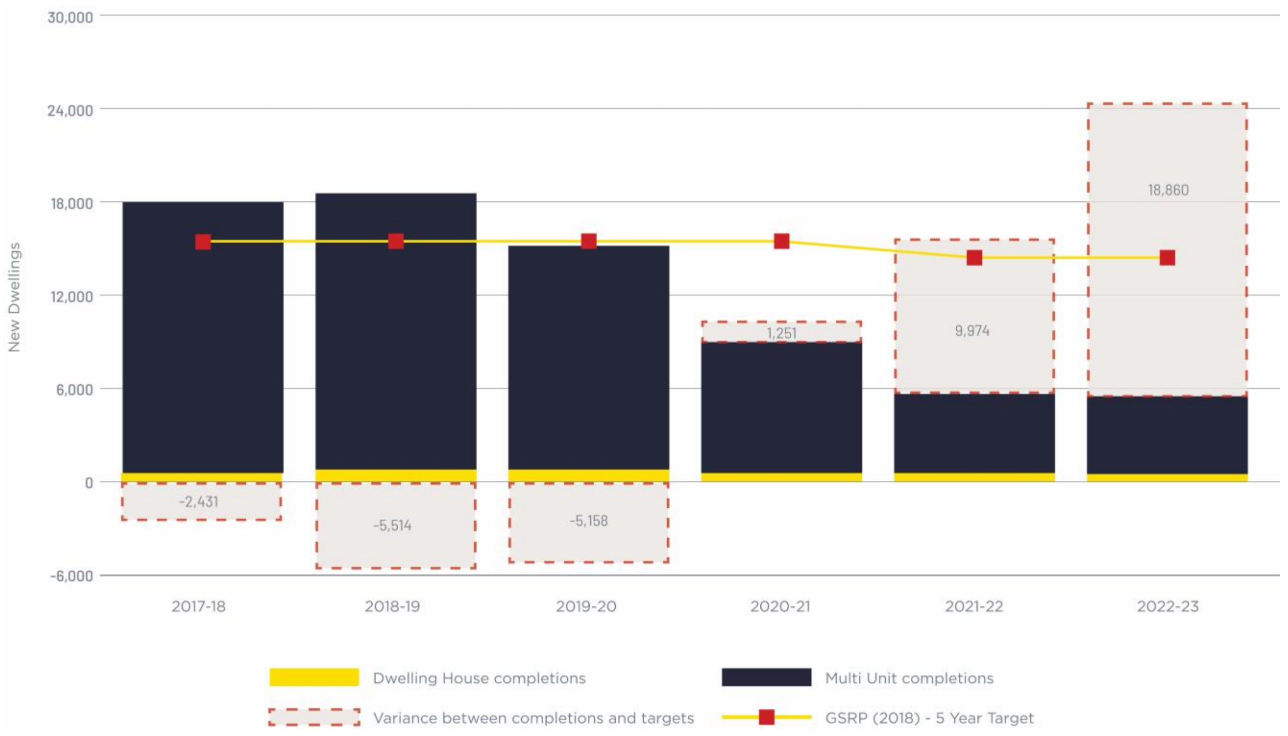
Figure 23 – Eastern Harbour City

Eastern Harbour City:
Housing supply and demand

Since 2021, completions in the Eastern Harbour City have consistently fallen short of the published dwelling targets, resulting in a cumulative shortfall of over 18,000 dwellings by 30 June 2023 (Figure 24).

The Six Cities share of the Housing Accord Target is 322,000 dwellings or 64,400 dwellings per annum. To achieve the Housing Accord, the Eastern Harbour City would need to contribute 94,349 extra dwellings, or over 18,870 extra dwellings each year from 2024 until 1 July 2029. The DPHI's recently released dwelling targets (June 2024) set a target of 107,100 dwellings for the same period.

By comparison, NSW Government forecasts for the Eastern Harbour City show dwelling completions are expected to be significantly below the Housing Accord target. The DPHI's Sydney Housing Supply Forecasts (SHSF) projects between ~44,000 and ~54,000 net completions or just over 8,800 to 10,800 extra homes each year. **This is a shortfall of over 50,000 dwellings just in the Eastern Harbour City over the next 5 years.**



Source: ABS, Greater Cities Commission and Savills

Figure 24 – Housing supply vs Government targets over the past 5 years

Central River City:
Housing supply and demand

The NSW Government has set the following dwelling targets for the Central River City in recent years:

Period	Dwellings	Avg per annum
5 Year Housing Target (16/17 – 20/21)	71,550	14,310
Housing Accord Dwelling Target (June 2024 – June 2029)	97,200	19,440
Previous 6-10 Year Housing Target (21/22 – 25/26)	85,000	17,000
Previous 20 Year Housing Target (16/17 – 35/36)	276,050	13,803

Source: Greater Cities Commission, DPHI and Savills adopting % of target to Eastern Harbour City

The Central River City's most productive year was FY 17/18 when just short of 15,000 dwellings were completed (10,164 multi units and 4,826 dwelling houses). This same 12-month period is the only time the dwelling targets set by the NSW Government were exceeded with 680 more dwellings constructed than the target of 14,310 dwellings.

Factors contributing to higher completions in FY 17/18 include lower taxes and charges on development than today, a static interest (cash) rate since 2016, lower APRA lending restrictions and lower foreign investment restrictions. Compared to a few years earlier sales in greenfield areas were typically lower than in 2012 – 2014, as the market became supply constrained.

Figure 25 – Central River City

Central River City:
Housing supply and demand

Since 2018, **completions in the Central River City have consistently fallen well short of the published dwelling targets, resulting in a cumulative shortfall of over 12,000 dwellings by 30 June 2023** (Figure 26).

The Six Cities share of the Housing Accord Target is 322,000 or 64,400 dwellings per annum. To achieve the Housing Accord, the Central River City would need to contribute 98,488 extra homes, or over 19,698 extra homes each year from 2024 until 1 July 2029. The DPHI's recently released dwelling targets (June 2024) set a target of 97,200 dwellings for the same period.

By comparison, NSW Government forecasts for the Central River City show dwelling completions are expected to be significantly below the Housing Accord target. The DPHI SHSF projects just over 60,000 net completions or just over 12,000 extra homes each year. **This is a shortfall of over 37,200 dwellings just in the Central River City over the next 5 years.**

Source: ABS, Greater Cities Commission and Savills

Figure 26 – Housing supply vs Government targets over the past 5 years

Western Parkland City:
Housing supply and demand

The NSW Government has set the following dwelling targets for the Western Parkland City in recent years:

Period	Dwellings	Avg per annum
5 Year Housing Target (16/17 – 20/21)	39,850	7,970
Housing Accord Dwelling Target (June 2024 – June 2029)	59,100	11,280
Previous 6-10 Year Housing Target (21/22 – 25/26)	39,934 - 49,434	7,987 – 9,887
Previous 20 Year Housing Target (16/17 – 35/36)	184,500	9,225

Source: Greater Cities Commission, DPHI and Savills adopting % of GCC target to Central River City

The Western Parkland City's most productive year was FY 18/19 when just over 10,100 dwellings were completed, following a relatively strong 17/18 with over 9,000 extra dwellings.

The factors contributing to higher completions in FY 17/18 and FY 18/19 included lower taxes and charges on development than today, a static interest (cash) rate since 2016, lower APRA lending restrictions and lower foreign investment restrictions. However, compared to a few years earlier sales in greenfield areas were typically lower than in 2012 – 2014, as the market became supply constrained.

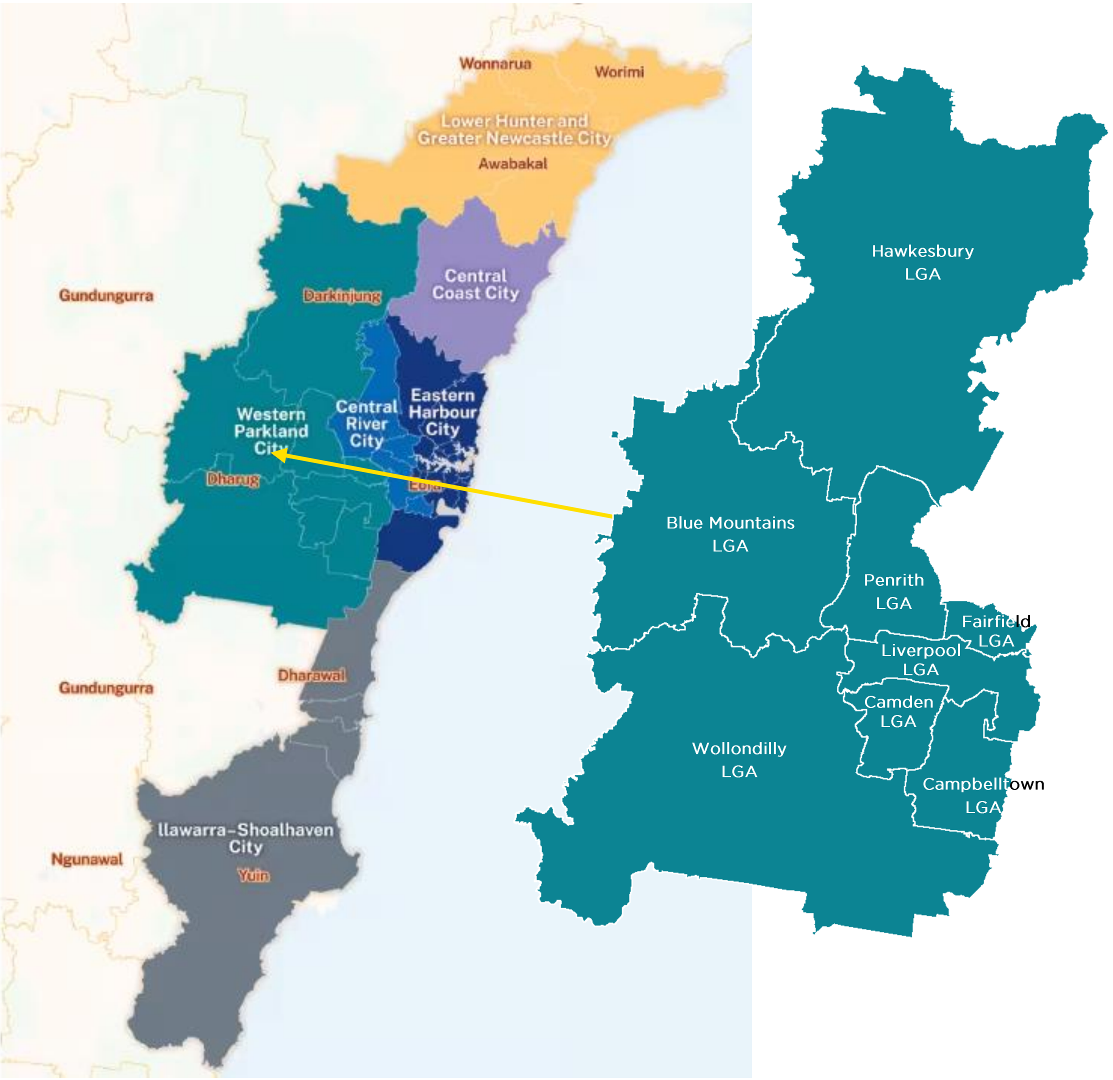


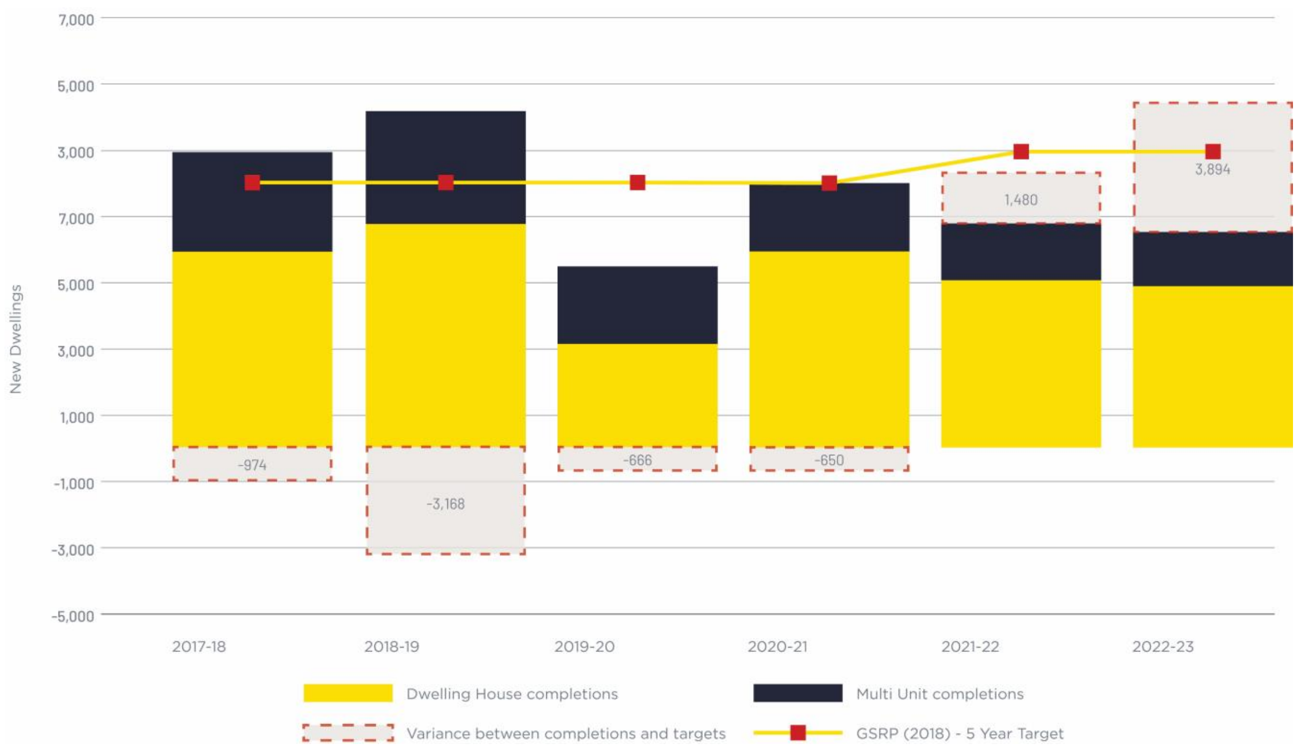
Figure 27: Western Parkland City

Western Parkland City: **Housing supply and demand**

Completions in the Western Parkland City have started to fall below published dwelling targets, resulting in a cumulative shortfall of almost 4,000 dwellings by 30 June 2023 (Figure 28).

The Six Cities share of the Housing Accord Target is 316,000 dwellings, or 63,200 dwellings per annum. To achieve the Housing Accord, the Western Parkland City would need to contribute 65,825 extra homes, or over 13,165 extra homes each year from 2024 until 1 July 2029. The DPHI's recently released dwelling targets (June 2024) for the Western Parkland City set a target of 59,100 dwellings for the same period.

By comparison, NSW Government forecasts for the Western Parkland City show dwelling completions are expected to be significantly below the Housing Accord target. The DPHI SHSF projects around 30,000 net completions or just over 6,000 extra homes each year. **This is a shortfall of over 29,100 dwellings just in the Western Parkland City over the next 5 years.**



Source: ABS, Greater Cities Commission and Savills

Figure 28 – Housing supply vs Government targets over the past 5 years

Illawarra-Shoalhaven City:
Housing supply and demand

The NSW Government has set the following dwelling targets for the Illawarra-Shoalhaven City in recent years:

Period	Dwellings	Avg per annum
5-year housing target (2016 – 21)	14,500	2,900
Housing Accord Dwelling Target (June 2024 – June 2029)	18,800	3,760
20 Year Housing Target (2021 – 2041)	58,000	2,900

Source: Greater Cities Commission and Savills adopting % of GCC target to Illawarra-Shoalhaven City

The most housing completions in the last 5 years in the Illawarra Shoalhaven was in FY 2020/21 when 2,636 dwellings were completed (878 multi units and 1,758 dwelling houses). However, the region did not meet the annual housing target

The factors contributing to higher completions in FY 20/21 included lower taxes and charges on development than today, a low interest (cash) rate, lower APRA lending restrictions and a higher level of contractors available.

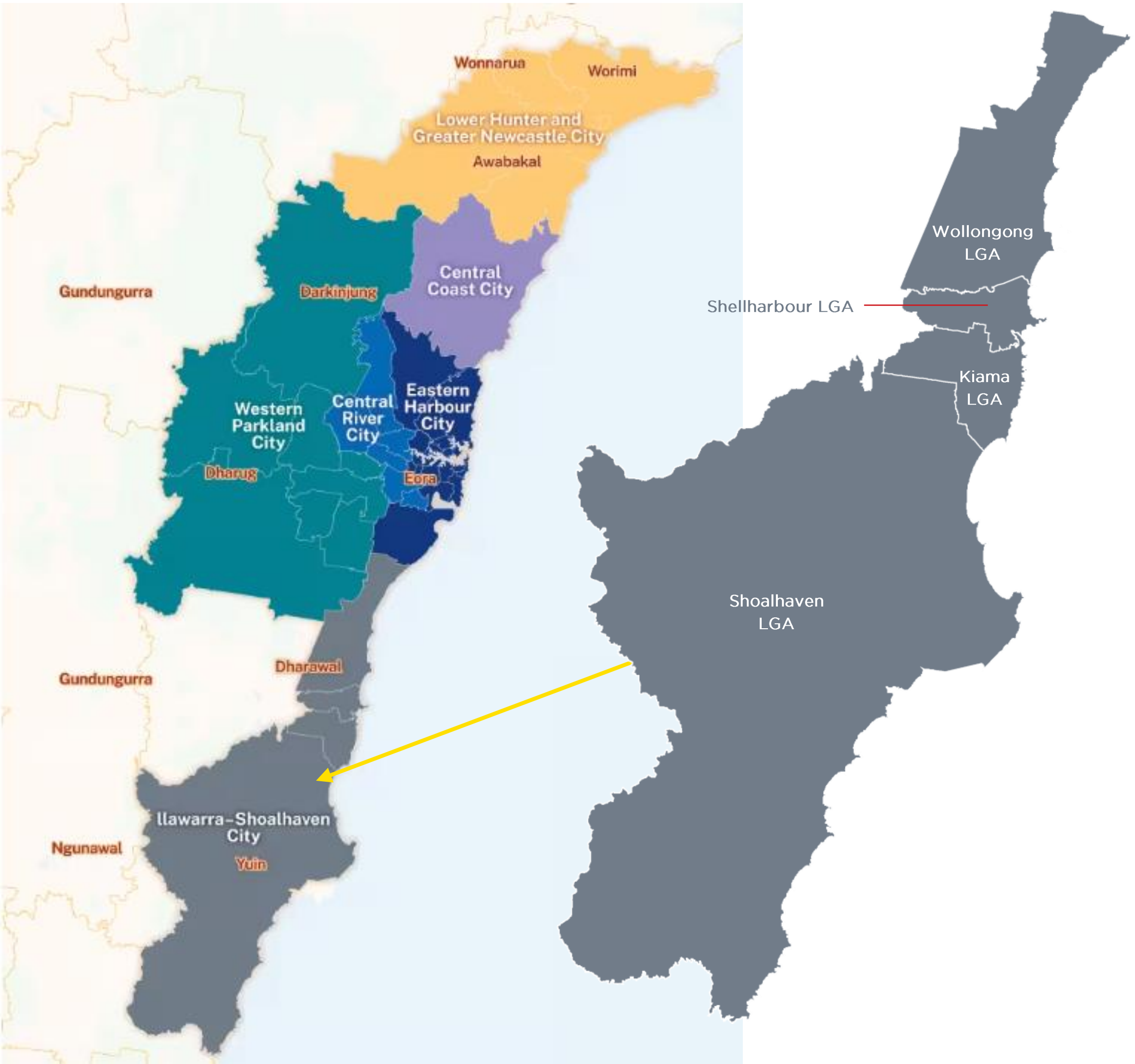


Figure 29: Illawarra-Shoalhave City

Illawarra-Shoalhaven City:
Housing supply and demand

Since 2018, completions in the Illawarra Shoalhaven have consistently fallen well short of the published dwelling targets, resulting in a cumulative shortfall of almost 3,500 dwellings by 30 June 2022 (Figure 30).

Our estimate is that the Illawarra-Shoalhaven City's share of the Housing Accord Target is 20,693 dwellings, or 4,139 dwellings per annum. The NSW Government's recently released dwelling target figures (June 2024) set the Illawarra-Shoalhaven City a target to deliver 18,800 new dwellings over the next 5 years from 30 June 2024.

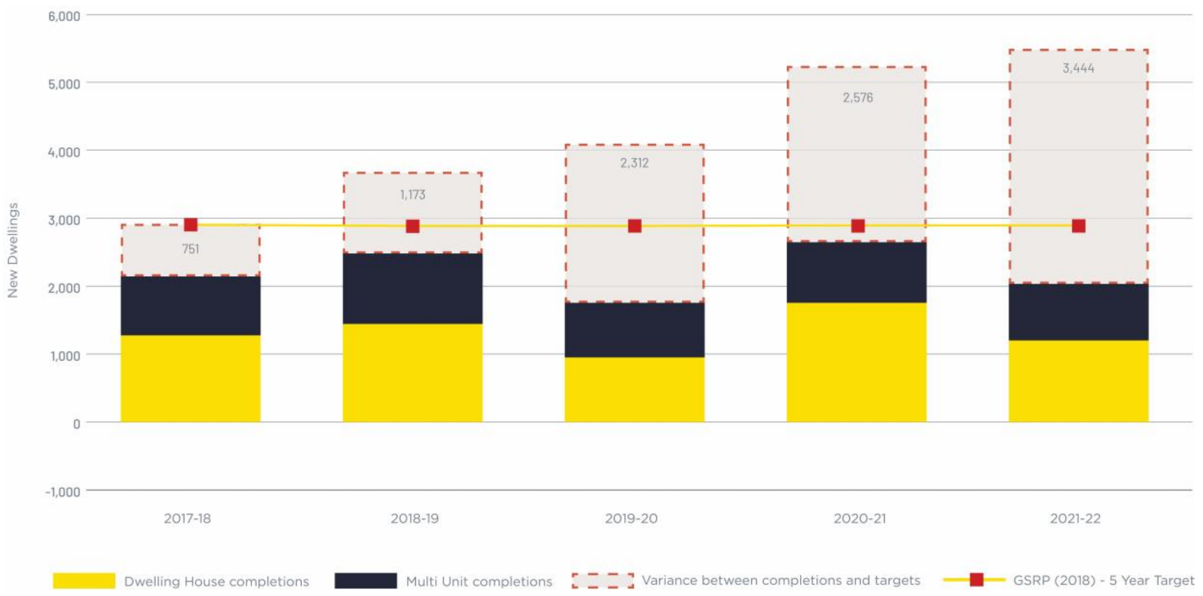
By comparison, the NSW Government forecasts for the Illawarra-Shoalhaven show the Government expects dwelling completions to be significantly above historic completions. The DPHI Urban Development Program projections show 22,775 net completions between 2022-23 and 2026-27 or just over 4,555 extra homes each year. If these targets are met the Illawarra-Shoalhaven City would be delivering around double the number of dwellings each year for the 5 years compared to the average from the last 5 years (4,555 dwellings per annum future versus 2,211 dwellings per annum historic).

The DPHI's forecast shows that between 2022-23 and 2026-27:

- Greenfield areas are expected to deliver 5,833 net dwellings with West Dapto expected to deliver 4,885 dwellings.
- Infill areas are expected to deliver 5,456 dwellings with over 200 dwellings expected to be delivered at Corrimal, over 350 dwellings expected in Dapto (infill areas) and Wollongong CBD a major area for unit supply.

Developers who are currently active in the Illawarra-Shoalhaven City have advised us that these supply forecasts appear high, particularly given proposed increased in s 7.11, HPC and Sydney Water DSP charges.

Housing Supply vs Housing Targets



Source: ABS, Greater Cities Commission and Savills

Figure 30 – Housing supply vs Government targets over the past 5 years

Boosting **housing supply**

Initiatives to boost housing supply are critical to achieve the Housing Accord targets. Increasing the supply of well-located and well-designed housing is also important for a range of reasons including those put forward by the NSW Productivity Commissioner[7].

Increasing housing supply:

- reduces the price of housing with a 10% increase in housing supply reducing the cost of housing by 25%;
- boosts the economy;
- supports more dwellings that are more affordable for lower- and middle-income households;
- potentially reduces homelessness through improved housing affordability;
- supports more families to access good schools;
- boosts wages and innovation; and
- reduces commuting costs and emissions.

New housing will only be developed if it is feasible for developers, banks and occupiers. Developers regard a project as feasible when it generates an appropriate return. Given most developers need to borrow money to fund a new development, banks and financiers also want to ensure they will be repaid, and that a proposed development generates an appropriate return. Larger developers are also required to make a return for their shareholders, and many will compare investments across asset classes.

For both smaller and larger developers there are a range of risks associated with development and the return for a developer seeks to account for these risks and the lending and return requirements imposed by banks.

There are several factors which determine whether a property development is financially feasible:

- project timelines and delays;
- costs, including taxes and charges;
- revenues; and
- project risks.

The Government can directly control taxes and charges and approval and servicing timeframes which are acting as a handbrake to the supply of new housing.

[7] ***Source:*** *Building more homes where people want to live, Productivity Commissioner (May 2023)*

03

RELEASE THE PRESSURE

Time is money

The typical **development process**

The old saying that 'time is money', applies to property development. A project delay means extra holding costs and interest costs and often an increase in building costs.

There are many stages involved in getting new homes built. In today's environment, delivering homes takes a long time and is subject to arduous planning and approval processes. Over the average project, a developer needs to pay interest costs and land holding costs.

As shown in Figure 20, construction costs have increased exponentially. **Since the COVID pandemic building costs have increased by 6.0% per annum[1] and inflation has increased at over 3.4% per annum[2].** It is accordingly critical for Government to help reduce approval times to drive housing supply.

Previous research indicates that on average it takes 5-7 years from when an area is first identified for new houses to when new homes can be built. Given this report focuses on the next 5 years, the hypothetical scenarios assume the sites are zoned and serviced.

Apartments/Infill

The typical process for apartments in the Central Coast City and the Lower Hunter and Greater Newcastle city is illustrated in Figure 32 while an extended timeframe, representing a worst-case scenario, is shown in Figure 33.

On average it takes over 4 years for a 250-unit project to be developed assuming the site is already zoned.

- Rezoning: DPHI's LEP Plan Making Guidelines indicate that the typical timeframe for a rezoning seeking a land use change and/or introduction of development controls is approximately 420 days. This would extend the development process if the site was not appropriately zoned.
- Planning / design – A developer needs to prepare DA plans and a host of studies to support the DA.
- Approvals – on average it takes between 200 – 600 days (9 – 18 months) for a local council to assess a development application for a new apartment. This can be longer than it takes to build the new apartments.
- Commencement (pre-sales) – According to the Australian Bureau of Statistics[3], on average, it takes 6 months from development approval to the start of construction on new apartments in NSW. However, this timeline can be extended due to pre-sale requirements, as developers often need to secure enough pre-sales to satisfy lenders, engage a builder, and complete site establishment activities.
- Construction - The Australian Bureau of Statistics reports[4] that it takes an average 20 months from the start to the end of the construction stage of a new apartment in NSW. This depends on the size of the development with a longer period for the larger project.
- Land and Environment Court – during the consultation process undertaken for the previous report, Property Council members actively developing in the Illawarra-Shoalhaven City told us that there is a higher probability of a DA being contested in the Land and Environment Court, resulting in further extended timeframes. Property Council members are accordingly adopting longer planning approval timeframes in their feasibilities (i.e.: in the order of 6 additional months).

The typical **development process**

Greenfield

The typical process for greenfield development in the Central Coast City and the Lower Hunter & Greater Newcastle City is illustrated in Figure 34 while an extended timeframe, representing a worst-case scenario, is shown in Figure 35. On average it takes over 2.5 years for a circa 100 lot subdivision to be developed assuming the site is already zoned and serviced.

- Rezoning: DPHI's LEP Plan Making Guidelines indicate that the typical timeframe for a rezoning seeking a land use change and/or introduction of development controls is approximately 420 days.
- Planning and design: This Report assumes the Greenfield development is a single stage in a larger estate / masterplan.
- Approvals: This Report assumes planning approvals take 18 months.
- Commencement: The project would proceed once the developer has achieved sufficient pre-sales.
- Construction: The construction is assumed to potentially include civil works and internal servicing to make the site ready to sell to build a house.
- Land and Environment Court – DAs contested in the Land and Environment Court result in further extended timeframes.

Time is money

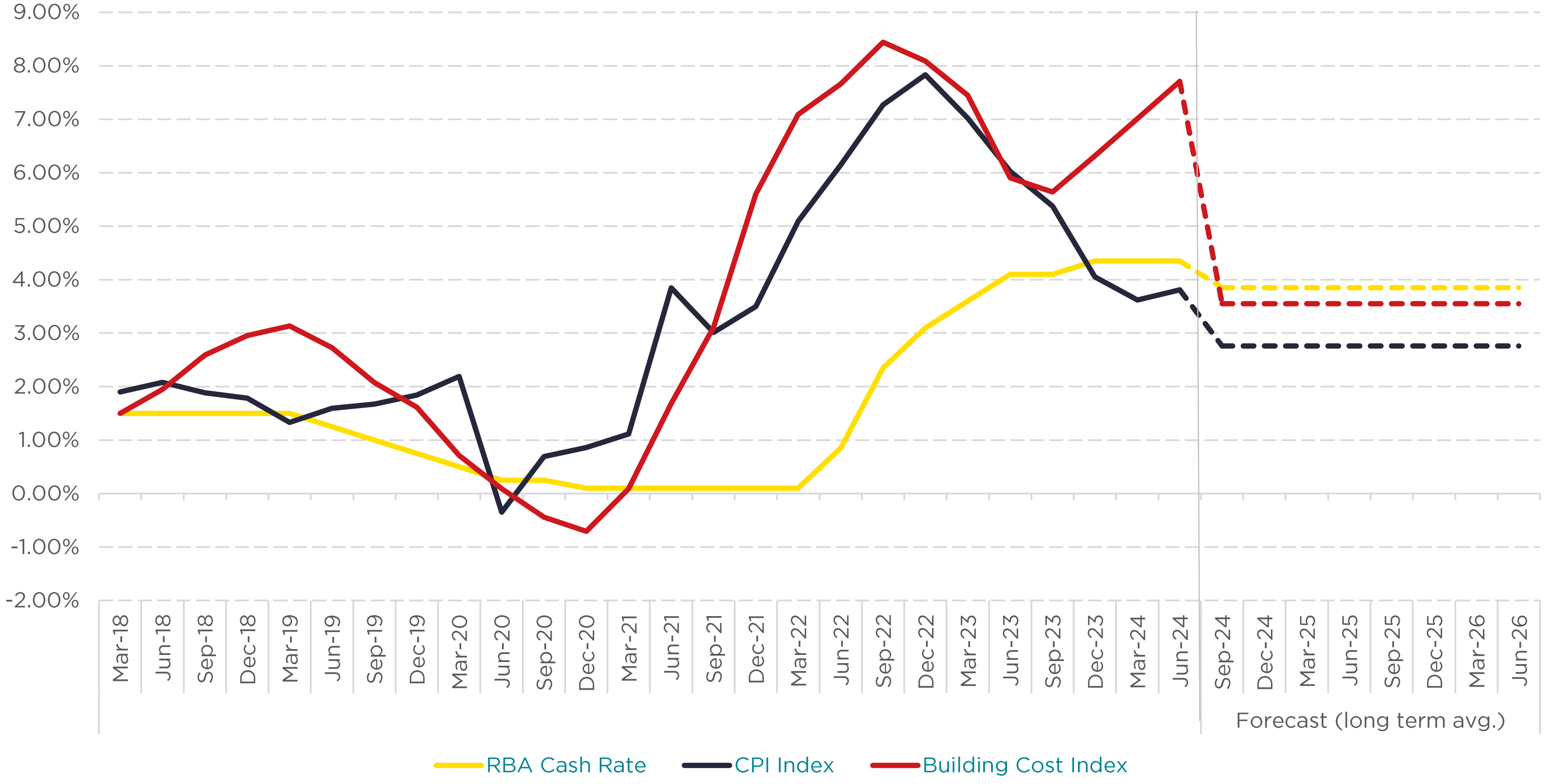


Figure 31 – Change in construction, interest and inflation since 2018

Figure 31 shows there has been a significant increase in construction costs and inflation (CPI) over the last couple of years. Interest rates have also increased from historic lows. As such the saying "time is money" applies to residential property development as these costs and taxes and charges, often tied to inflation, have been increasing quicker than the revenues developers receive for new apartments or land for housing.

Typical timeline
Infill residential development

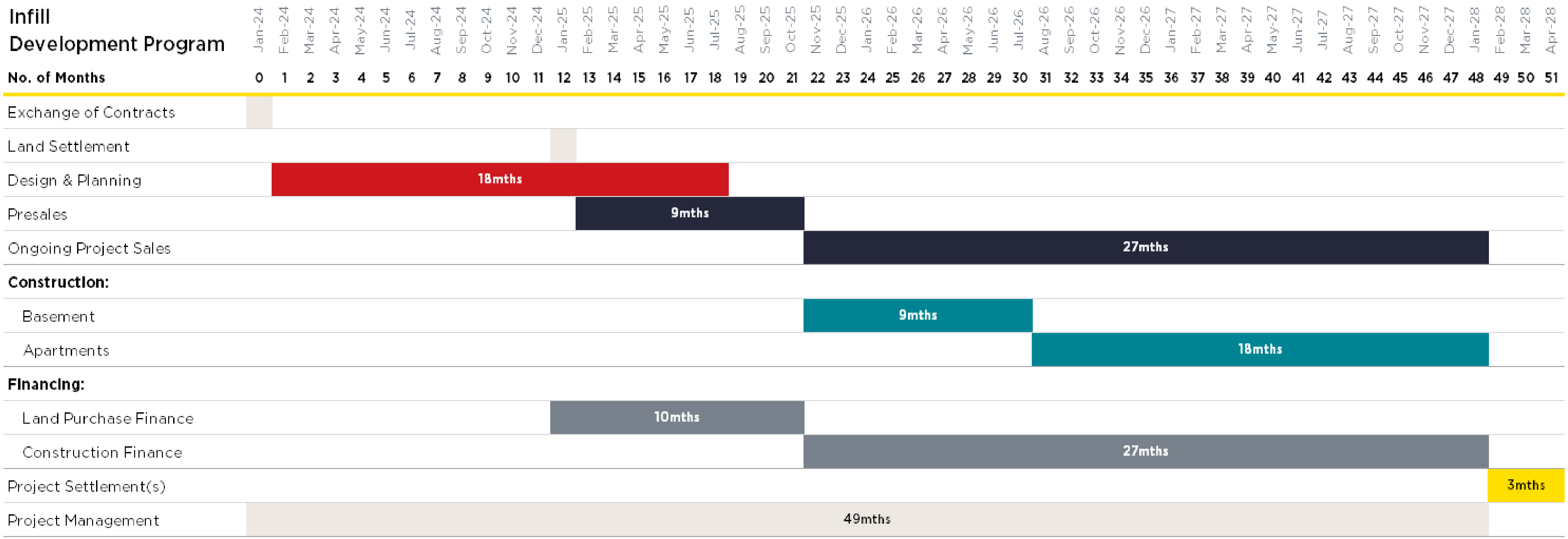


Figure 32 – Typical infill development timeline

Extended timeline
Infill residential development

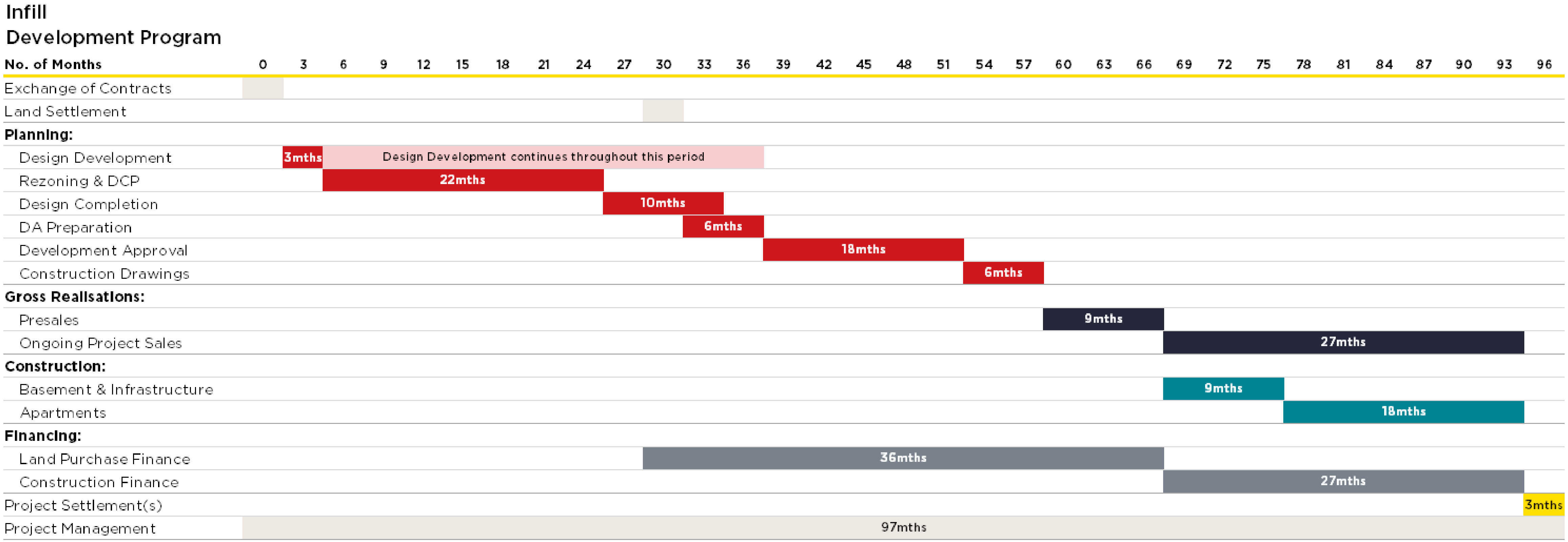


Figure 33 – Typical infill development timeline

Typical timeline
Greenfield development

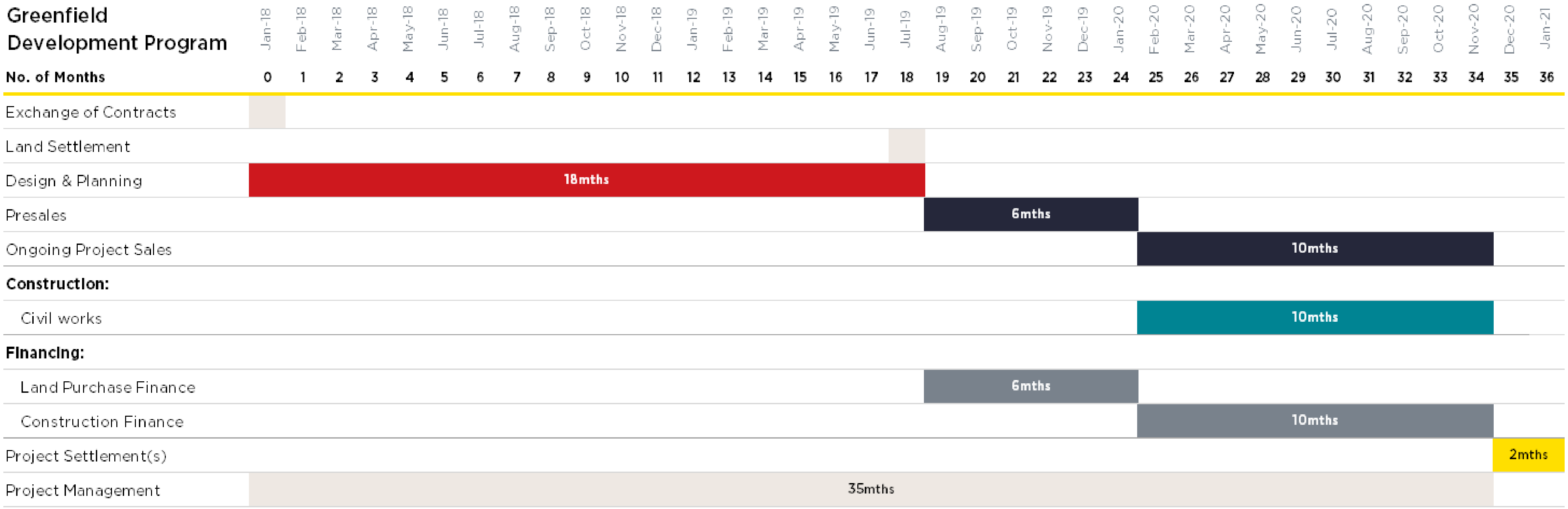


Figure 34 – Typical greenfield development timeline

Extended timeline
Greenfield development

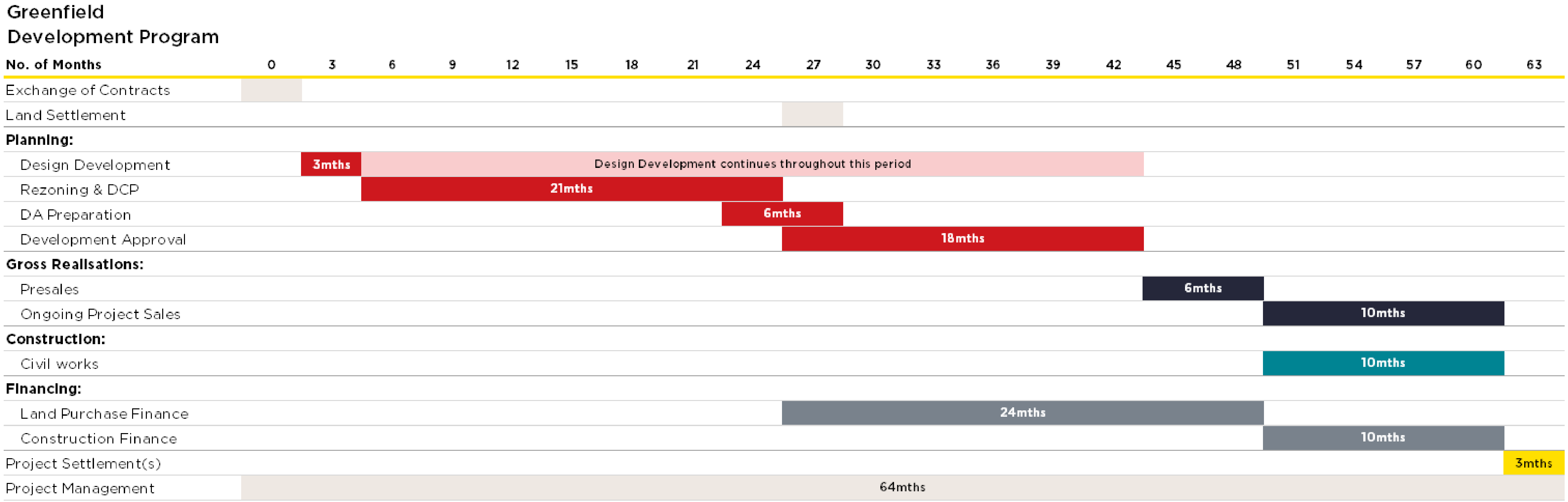


Figure 35 – Typical greenfield development timeline

04

RELEASE THE PRESSURE

Residential Taxes and Charges

Residential development **taxes & charges**

Residential development in NSW can attract up to 15 different charges and taxes, which collectively reduce development feasibility.

Historically, taxes and charges were limited to Stamp Duty, Section 7.11 and GST, however, the introduction of new and increasing taxes and charges such as the HPC and DSP charges are reducing the viability of residential development across the Six Cities region. A Housing Australia report states "*funding a much wider array of social infrastructure through developer contributions deliver broader community benefits but confer fewer clear, direct and immediate private benefits to new home buyers. This means developer contributions increasingly act like a tax on new housing, which can impede new housing supply and reduce housing affordability for buyers and renters*"[8].

Many taxes, duties, and levies are calculated as a percentage of either the purchase price, construction costs and/or increase in line with inflation, which has been growing faster than revenues. Residential development viability consequently falls foul of compounding costs.

The key taxes, duties and charges applying to residential development are illustrated in Figure 36 & 37 and described in Appendix A.

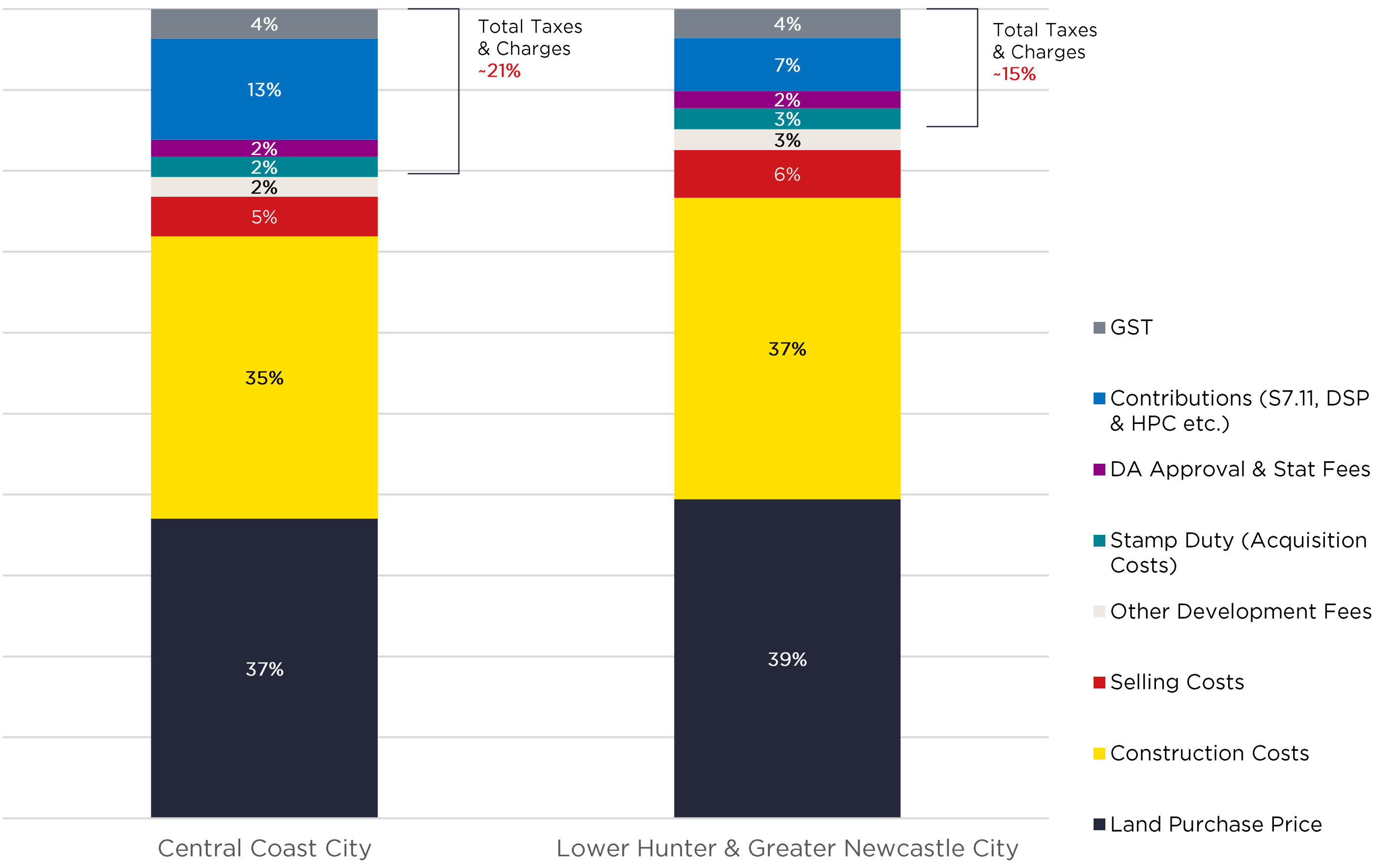


Figure 36 – Proportion of taxes and charges in the Central Coast City, and Lower Hunter & Greater Newcastle City (Greenfield Development)

Residential development **taxes & charges**

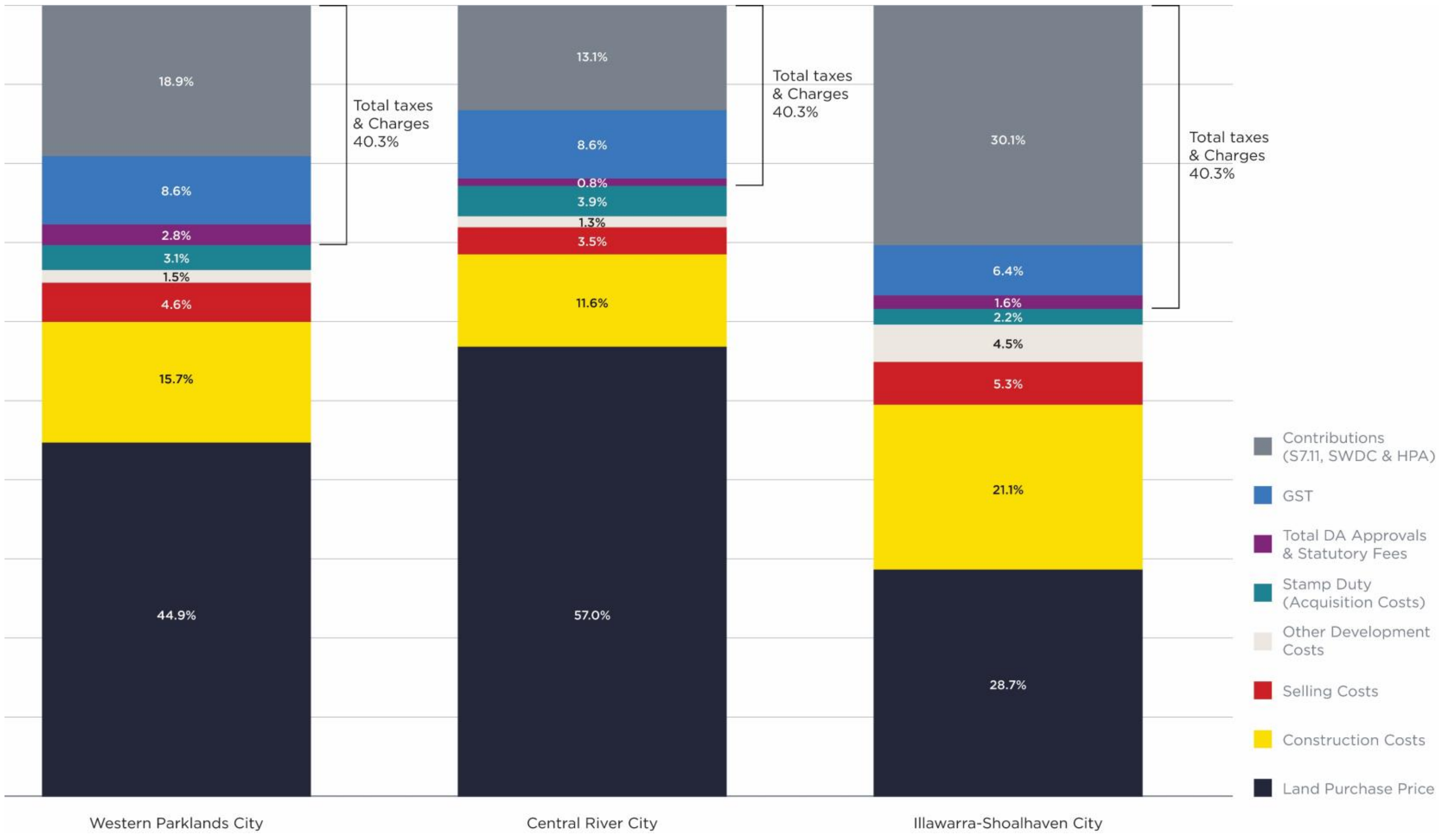


Figure 37 – Proportion of taxes and charges in the Western Parkland City, Central River City and Illawarra-Shoalhaven City (Greenfield Development)

At least **15%** of **housing costs are taxes and charges**

- **In the Lower Hunter & Greater Newcastle City, taxes and charges make up 15% of total greenfield development costs**
- **In the Central Coast City, taxes and charges make up over 20% of total greenfield development costs**
- In the Central River City, taxes and charges will make up more than a quarter (26.5%) of total greenfield development costs.
- In the Western Parkland City, taxes and charges will make up a staggering one third (33.3%) of the total greenfield development cost.
- In the Illawarra-Shoalhaven City, taxes and charges in 2026 will make up 40% of the total greenfield development cost.

These costs are passed onto home purchasers and directly affect affordability and purchasing power. As taxes and charges continue to increase, affordability will continue to decrease and home ownership will become unattainable for an increasing proportion of the community.

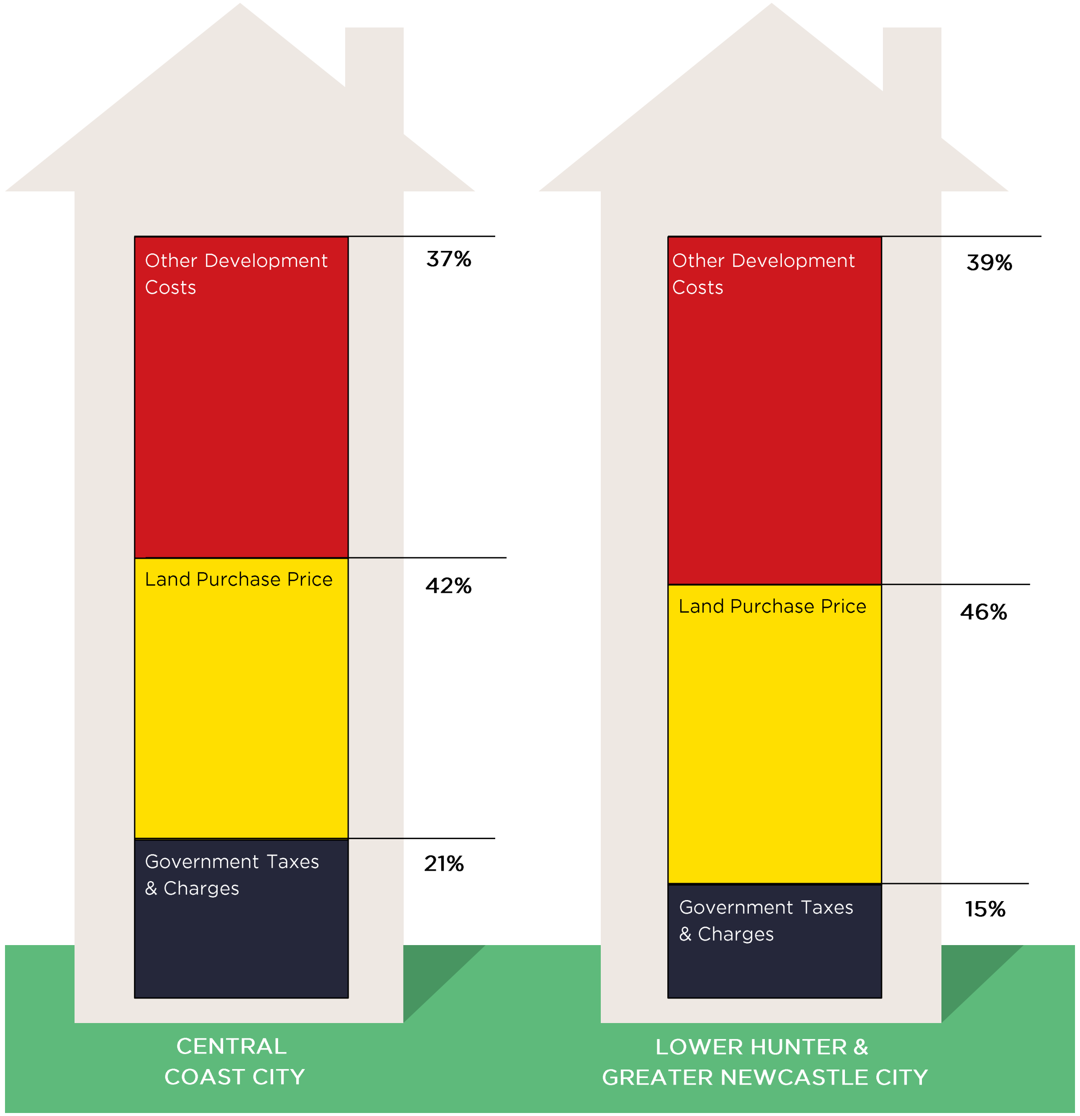


Figure 38 – NSW Government taxes and charges as a proportion of greenfield housing costs in the Central Coast City and Lower Hunter & Greater Newcastle City

There are **large variations** in developer charges

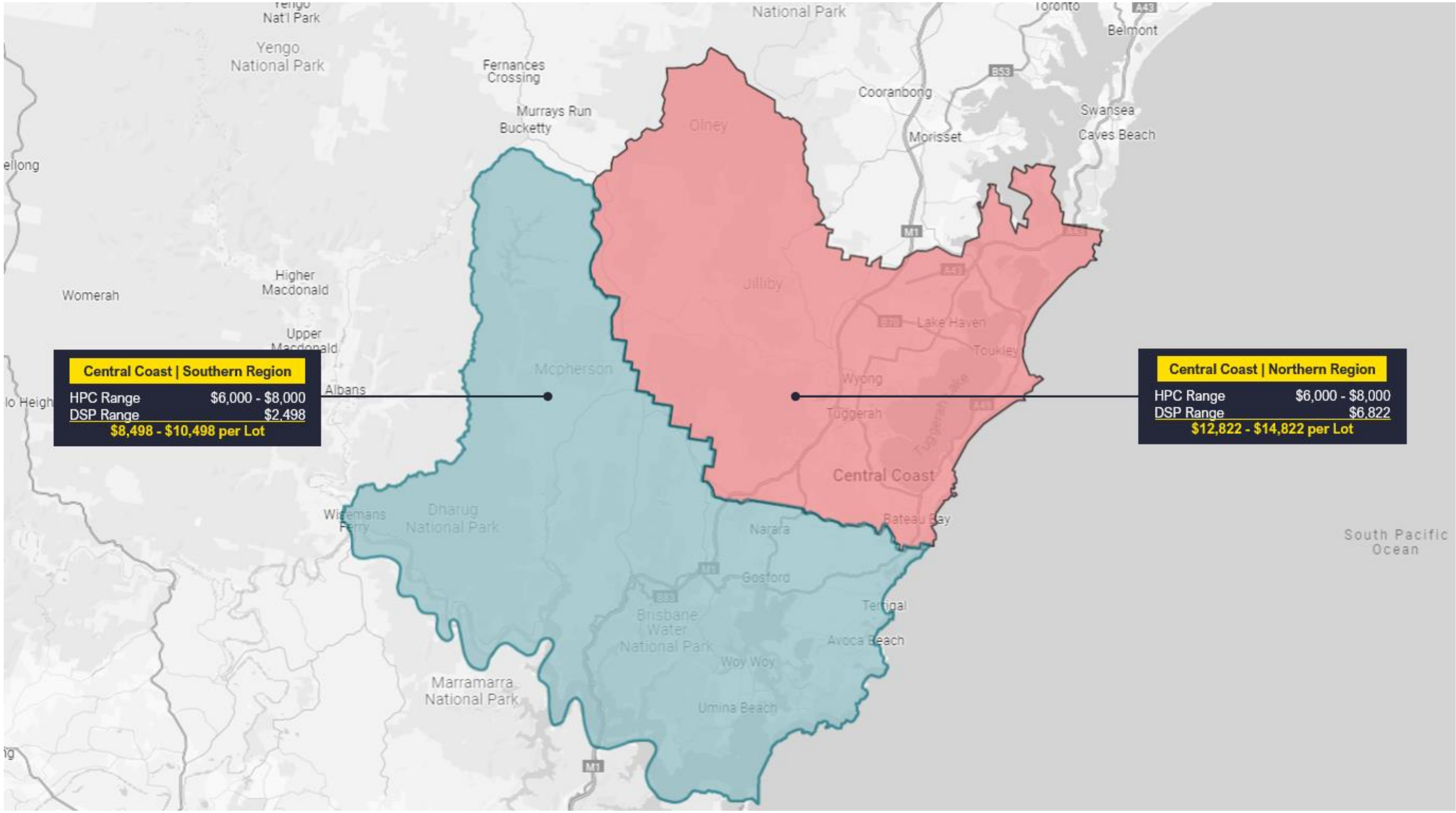


Figure 39 – DSP & HPC Charges in the Central Coast City

- Figures are given per dwelling (House).

There are **large variations** in developer charges

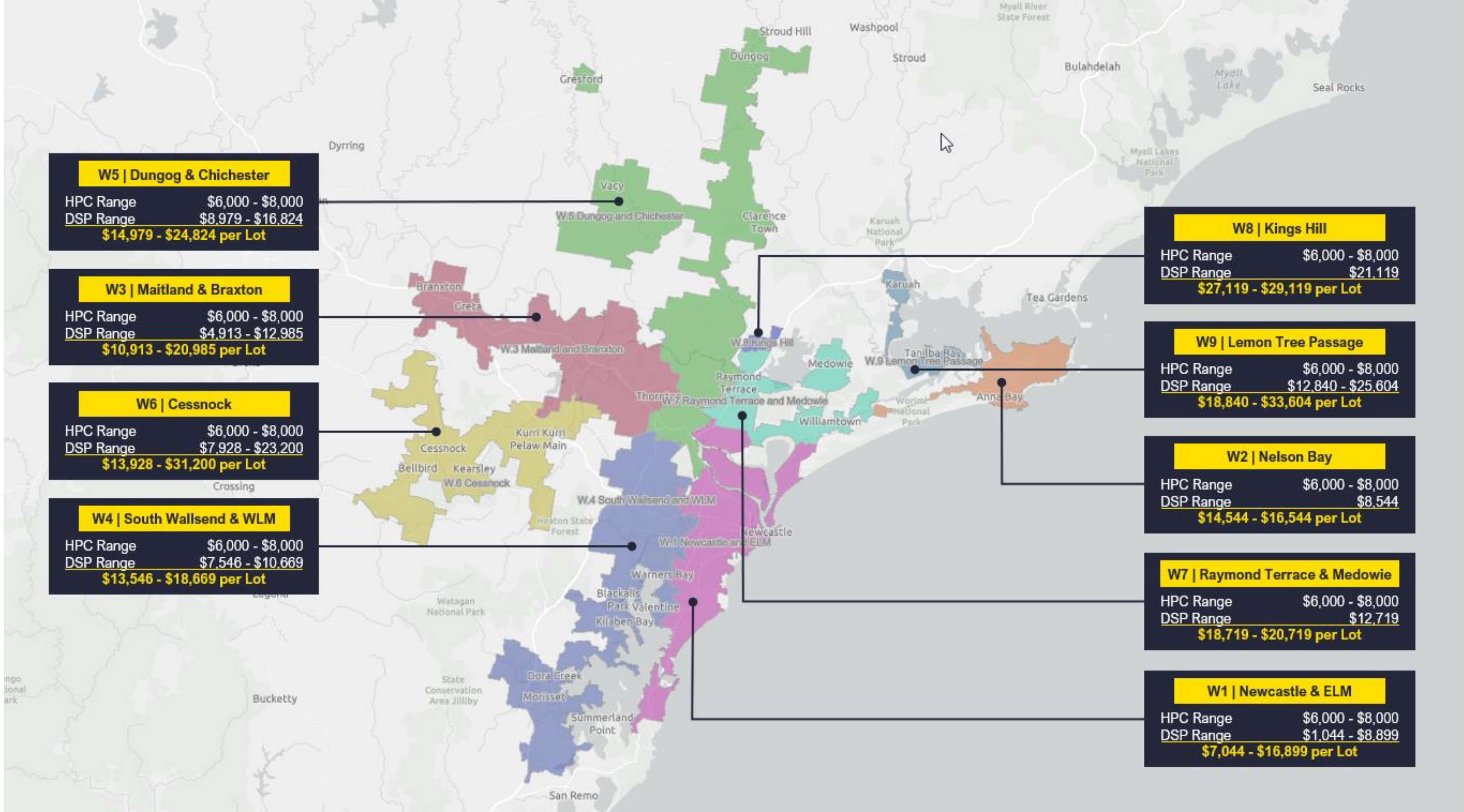


Figure 40 – DSP & HPC charges in the Lower Hunter & Greater Newcastle City

- Figures are given per dwelling (House).

05

RELEASE THE PRESSURE

Investment Metrics

Residential development **investment metrics**

There is misconception that developers make significant profit when undertaking development. The reality is development has many risks and is a business underpinned by a range of external factors such as planning approvals, material and labour cost changes and market trends. Development is also reliant on numerous third parties, such as financiers, consent authorities, regulators responsible for providing infrastructure, and community and resident action groups who often do not want to change in their local area.

To manage and mitigate these risks, developers, investors and particularly banks adopt a set of investment metrics to reflect the degree of development risk they are willing to take on. Often these target returns are not the profit a developer makes but a target at the start of a project before the developer is sure of approval timeframes, pre-sales rates and construction costs which some builders now only want to lock in for 30-90 days.

A critical step in determining whether to proceed with development is to establish the minimum acceptable rate of return that an investment project must achieve to be considered a financially viable and acceptable project, otherwise known as hurdle rates. The two most common indicators of hurdle rates are:

- **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. The forecast return has to be higher than a developer's target return for a project to start. The IRR is commonly used for projects of over 2yrs to account for the time value of money. 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. Development margins are adjusted as the risk profile changes with higher margins adopted for risker projects, and lower margins adopted for less risky projects 'develop and hold' where there is potential for strong investment covenants. Development margins are typically used to assess shorter term projects of less than 2 years.

A project will not start if the developer cannot achieve these target returns and/or the existing use value of a site is higher than what a developer can pay for the site.

06

RELEASE THE PRESSURE

Hypothetical Scenarios

Our **hypothetical** development scenarios

To assess the potential impacts from the various taxes, charges and duties on development feasibility, *Release the Pressure No. 2* modelled (2) hypothetical developments in both the Eastern Harbour City and the Illawarra-Shoalhaven City. The hypothetical developments were modelled under four scenarios in 2018, 2024 and 2026 were:

- Base Case – application of all taxes and charges, including the phased introduction of Housing Productivity Contributions and Sydney Water DSP charges as per current NSW Government commitments.

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

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

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

In addition, *Release the Pressure No. 2 modelled* compressed planning approval timeframes across all four cities investigated to date, testing the benefits of a maximum 6-month and 9-month planning approval process.

Release the Pressure No. 3 takes a similar approach for Central Coast City and Lower Hunter & Greater Newcastle City. In both regions, the infill apartment developments were reduced in scale to reflect market conditions.

The hypothetical developments in *Release the Pressure No. 3* have been modelled under the same four scenarios and time periods (2018, 2024 and 2026) as adopted for Release the Pressure Nos. 1 and 2. The scenarios are:

- Base Case – application of all taxes and charges, including the phased introduction of HPC and Sydney Water & Hunter Water DSP charges 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 Central Coast Water & Hunter Water 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 with shorter planning approval timeframes, including the suspension or discounting of charges.

Our **hypothetical** development scenarios

Under all scenarios:

- standard development approval processes are assumed, with no rezoning, design competition or similar processes required;
- the cost and revenue inputs are informed by averages and feedback from developers and agents who are active in the Central Coast City and the Lower Hunter & Greater Newcastle City;
- while all developments and developers are different and the scenarios are hypothetical, they are based on market prices, sales rates and construction costs;
- s7.11 and/or s7.12 contributions are retained; and
- Affordable housing contributions are retained where an Affordable Housing Contribution Scheme is in place or there is another mechanism to levy for Affordable Housing.

Our **hypothetical** development scenarios

	Greenfield Development: Central Coast City and Lower Hunter & Greater Newcastle City	Infill Development: Central Coast City and Lower Hunter & Greater Newcastle City
Type	Greenfield subdivision (single stage)	Residential apartment building
Yield	115 lot subdivision	150 apartments
Height	n/a	Between 10 and 20 storeys
Density	22 lots / ha	Floor space ratio 3:1
Parking rates	n/a	221
Lot size	$154m^2$ – $576m^2$ (with most lots in the $300m^2$ – $400m^2$ range)	Not applicable
Staging	1 stage	1 stage

Our **hypothetical** development scenarios

	Infill Development: Central River City and Western Parkland City	Greenfield Development: Central River City, Western Parkland City and Illawarra-Shoalhaven City
Type	Residential apartment building	Greenfield subdivision (single stage)
Yield	250 apartments	115 lot subdivision
Height	Between 10 and 20 storeys	n/a
Density	Floor space ratio 3:1	22 lots / ha
Parking rates	368	n/a
Lot size	Not applicable	154m^2 – 576m^2 (with most lots in the 300m^2 – 400m^2 range)
Staging	1 stage	1 stage

	Infill Development: Illawarra-Shoalhaven City
Type	Residential apartment building
Yield	80 apartments
Height	Between 5 and 10 storeys
Density	Floor space ratio 1.5:1
Parking rates	118
Lot size	Not applicable
Staging	1 stage

Central Coast City:
Infill assumptions

The hypothetical residential flat building development scenarios for the Central Coast City adopt the following major average costs and revenues. It is important to note there are a range of prices across the suburbs in the Central Coast City and the examples are indicative averages for locations which have accommodated apartment developments recently.

	2018	2024*
Land values ($per unit)	E.g. Gosford $45,000 - $85,000 per unit	E.g. Gosford $45,000 - $85,000 per unit
Gross Realisable Value / Price (blended $ per unit)	$6,000 - $9,000m^2 (Net Saleable Area)	$7,000 - $10,500m^2 (Net Saleable Area)
Unit construction (base) per Gross Floor Area	$2,745m^2 (with a location allowance)	$3,720m^2 (with a location allowance)**
Parking construction	$53,580 per space	$65,000 per space
Balcony construction	$996m^2	$1,500m^2
Statutory	Savills adopted S7.12 contributions from the suburb of Gosford, SIC from Gosford City Centre and Central Coast DSP charges (discounted).	Adopted S7.12 contributions from the suburb of Gosford, DSP Charges (Southern Region), and HPC as per phase-in provisions.

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.
- ** Building costs can vary significantly. The RLB Riders Digest 2024 provides a cost range per GFA for 10-20 storeys of $4,100 - $5,500 per square metre. Increasingly, owner-occupier expectations are driving higher specifications and finishes, leading to increased construction costs.

Central Coast City: **Greenfield** assumptions

The hypothetical residential flat building development scenarios for the Central Coast City adopt the following major average costs and revenues. It is important to note there are a range of prices across the suburbs in the Central Coast City and the examples are indicative averages for locations which have accommodated apartment developments recently.

	2018	2024*
Englobo land values ($m^2 GFA or per unit)	Circa Warnervale: $82,000 per lot	Circa Warnervale: $155,000 per lot
Retail land value	Circa Warnervale: $285,000 per lot	Circa Warnervale: $550,000 per lot
Civils (per lot)	$50,000	$130,000
Professional fees/development management (per lot)	Circa $4,000	Circa $10,000
Sales and marketing (per lot)	Circa $10,000	Circa $15,500
Statutory fees	Adopted Section 7.11 Contributions from the suburb of Warnervale (Precinct 7A), and DSPs as per Central Coast Council (Northern Region)	Adopted Section 7.11 Contributions from the suburb of Warnervale (Precinct 7A), DSPs as per Central Coast Council (Northern Region), and HPC as per phase-in provisions

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and DSP charges

Lower Hunter & Greater Newcastle City: **Infill** assumptions

The hypothetical residential flat building development scenarios for the Lower Hunter & Greater Newcastle City adopts the following major average costs and revenues. It is important to note there are a range of prices across the suburbs in the Lower Hunter & Greater Newcastle City and the examples are indicative averages for locations which have accommodated apartment developments recently.

	2018	2024*
Land values ($ per unit)	E.g. Wickham $70,000 - $100,000 per unit	E.g. Wickham $70,000 - $100,000 per unit
Gross Realisable Value / Price (blended $ per unit)	$7,000 - $9,500m^2 (Net Saleable Area)	$10,000 - $12,500m^2 (Net Saleable Area)
Unit construction (base) per Gross Floor Area	$2,745m^2 (with a location allowance)	$3,720m^2 (with a location allowance)**
Parking construction	$53,580 per space	$65,000 per space
Balcony construction	$996m^2	$1,500m^2
Statutory	Adopted Newcastle Multi-Dwelling S7.11 Contributions, and HPC Charges as per phase-in provisions	Adopted Newcastle Multi-Dwelling S7.11 Contributions, DSP Charges from the suburb of Wickham, and HPC Charges as per phase-in provisions

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.
- ** Building costs can vary significantly. The RLB Riders Digest 2024 provides a cost range per GFA for 10-20 storeys of $4,100 - $5,500 per square metre. Increasingly, owner-occupier expectations are driving higher specifications and finishes, leading to increased construction costs.

Lower Hunter & Greater Newcastle City: **Greenfield** assumptions

The hypothetical greenfield development scenarios have adopted the following average costs and scenarios. It is important to note there are a range of prices across the suburbs in the Lower Hunter & Greater Newcastle and the examples are indicative averages for locations which have accommodated significant Greenfield developments recently.

	2018	2024*
Englobo land values ($m^2 GFA or per unit)	Circa Cameron Park: $20,000 per lot	Circa Cameron Park: $105,000 per lot
Retail land value	Circa Cameron Park: $285,000 per lot	Circa Cameron Park: $365,000 per lot
Civils (per lot)	$50,000	$100,000
Professional fees/development management (per lot)	Circa $4,000	Circa $9,000
Sales and marketing (per lot)	Circa $9.000	Circa $11,500
Statutory fees	No HPC or DSP Charges in effect as at 2018. S7.11 as per Lake Macquarie City Council Development Contributions Plan	DSP and HPC as per phase-in provisions. S7.11 as per Lake Macquarie City Council Development Contributions Plan

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.

Eastern Harbour City: **Infill assumptions**

The hypothetical residential flat building development scenarios for the Eastern Harbour City adopt the following major average costs and revenues. It is important to note there are a range of prices across the suburbs in the Eastern Harbour City and the examples are indicative averages for locations which have accommodated apartment developments recently.

	2018	2024*
Land values ($per unit)	E.g. Macquarie Park: $150,000 - $300,000 per unit	E.g. Macquarie Park: $150,000 - $300,000 per unit
Gross Realisable Value / Price (blended $ per unit)	$11,000 - $15,000m^2 (Net Saleable Area)	$13,000 - $18,000m^2 (Net Saleable Area)
Unit construction (base) per Gross Floor Area	$3,700m^2 (with location allowance)	$4,500m^2 (with a location allowance)**
Parking construction	$50,500 per space	$65,000 per space
Balcony construction	$1,125m^2	$1,500m^2
Statutory	Savills averaged rates used in several former Development Contribution Plans published on the Ryde Council web-site + DA fees	Adopted Macquarie Park Contribution Plan by Ryde Council, Housing Productivity Contribution (discounted) and Sydney Water DSP charges (discounted) as per Government phase-in provisions + DA fees

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and Sydney Water DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.
- ** Building costs can vary significantly. The RLB Riders Digest 2024 provides a cost range per GFA for 10-20 storeys of $4,100 - $5,500 per square metre. Increasingly, owner-occupier expectations are driving higher specifications and finishes, leading to increased construction costs9.

Central River City: **Infill** assumptions

The hypothetical residential flat building development scenarios for the Central River City adopt the following major average costs and revenues. It is important to note there are a range of prices across the suburbs in the Central River City and the examples are indicative averages for locations which have accommodated apartment developments recently.

	2018	2024*
Land values ($per unit)	E.g. Parramatta / Carlingford / Castle Hill: $100,000 - $150,000 per unit	E.g. Parramatta / Carlingford/ Castle Hill: $100,000 - $150,000 per unit
Gross Realisable Value / Price (blended $ per unit)	$10,000 - $10,500m² (Net Saleable Area)	$11,000 - $12,000m² (Net Saleable Area)
Unit construction (base) per Gross Floor Area	$3,500m² (with location allowance)	$4,500m² (with a location allowance)**
Parking construction	$60,500 per space	$75,000 per space
Balcony construction	$1,125m²	$1,600m²
Statutory	Savills averaged rates used in several former Development Contribution Plans published on the Parramatta Council web-site + DA fees	Adopted Outside CBD Contribution Plan (Amendment 1) by Parramatta Council, Housing Productivity Contribution (discounted) and Sydney Water DSP charges (discounted) as per Government phase-in provisions + DA fees

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and Sydney Water DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.
- ** Building costs can vary significantly. The RLB Riders Digest 2024 provides a cost range per GFA for 10-20 storeys of $4,100 - $5,500 per square metre. Increasingly, owner-occupier expectations are driving higher specifications and finishes, leading to increased construction costs9.

Central River City: **Greenfield** assumptions

The hypothetical greenfield development scenarios have adopted the following average costs and scenarios. It is important to note there are a range of prices across the suburbs in the Central River City and the examples are indicative averages for locations which a couple of locations have accommodated Greenfield developments in the recent past.

	2018	2024*
Englobo land values ($m^2 GFA or per unit)	Circa Riverstone: $275,000 per lot	Circa Riverstone: $450,000 per lot
Retail land value	Circa Riverstone: $420,000 per lot	Circa Riverstone: $780,000 per lot
Civils (per lot)	$50,000	$70,000
Professional fees/development management	$15,000	$20,000
Sales and marketing	$15,000	$20,000
Statutory fees	Adopted historic s7.11 from Blacktown City Council and SIC from Growth Centres Commission	Adopted s7.11 from Blacktown City Council, Housing Productivity Contribution (discounted) and Sydney Water DSP charges (discounted) as per Government phase-in provisions.

* Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and SWDSP charges

Western Parkland City: **Infill** assumptions

The hypothetical residential flat building development scenarios for the Western Parkland City adopts the following major average costs and revenues. It is important to note there are a range of prices across the suburbs in the Western Parkland City and the examples are indicative averages for locations which have accommodated apartment developments recently.

	2018	2024*
Land values ($per unit)	E.g. Liverpool / Leppington / Penrith: $80,000 - $100,000 per unit	E.g. Liverpool / Leppington / Penrith: $80,000 - $100,000 per unit
Gross Realisable Value / Price (blended $ per unit)	$6,000 - $8,000m^2 (Net Saleable Area)	$7,000 - $9,500m^2 (Net Saleable Area)
Unit construction (base) per Gross Floor Area	$3,500m^2 (with location allowance)	$4,500m^2 (with a location allowance)**
Parking construction	$60,500 per space	$75,000 per space
Balcony construction	$1,125m^2	$1,600m^2
Statutory	Savills averaged rates used in several former Development Contribution Plans published on the Liverpool City Council web-site + DA fees	Adopted Leppington North/Austral Precincts Contribution Plan (2021) by Liverpool City Council, Housing Productivity Contribution (discounted) and Sydney Water DSP charges (discounted) as per Government phase-in provisions + DA fees

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and Sydney Water DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.
- ** Building costs can vary significantly. The RLB Riders Digest 2024 provides a cost range per GFA for 10-20 storeys of $4,100 - $5,500 per square metre. Increasingly, owner-occupier expectations are driving higher specifications and finishes, leading to increased construction costs9.

Western Parkland City: **Greenfield** assumptions

The hypothetical greenfield development scenarios have adopted the following average costs and scenarios. It is important to note there are a range of prices across the suburbs in the Western Parkland City and the examples are indicative averages for locations which have accommodated significant Greenfield developments recently.

	2018	2024*
Englobo land values ($m^2 GFA or per unit)	Circa Austral: $130,000 per lot	Circa Austral: $230,000 per lot
Retail land value	Circa Austral: $360,000 per lot	Circa Austral: $570,000 per lot
Civils (per lot)	$50,000	$70,000
Professional fees/development management	$12,750	$17,000
Sales and marketing	$10,000	$17,000
Statutory fees	Adopted historic s7.11 from Liverpool City Council and SIC from Growth Centres Commission	Adopted s7.11 from Leppington North/Austral Precincts Contribution Plan (2021) by Liverpool City Council, Housing Productivity Contribution (discounted) and Sydney Water DSP charges (discounted) as per Government phase-in provisions.

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and Sydney Water DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.

Illawarra-Shoalhaven City: **Infill** assumptions

The hypothetical residential flat building development scenarios for the Illawarra-Shoalhaven City adopts the following major average costs and revenues. It is important to note there are a range of prices across the suburbs in the Illawarra-Shoalhaven City and the examples are indicative averages for locations which have accommodated apartment developments recently.

	2018	2024*
Land values ($per unit)	Wollongong CBD: $50,000 - $80,000 per unit	Wollongong CBD: $50,000 - $80,000 per unit
Gross Realisable Value / Price (blended $ per unit)	$6,500 - $8,500m^2 (Net Saleable Area)	$7,500 - $9,500m^2 (Net Saleable Area)
Unit construction (base) per Gross Floor Area	$3,600m^2 (with location allowance)**	$4,500m^2 (with a location allowance)**
Parking construction	$50,000 per space	$60,000 per space
Balcony construction	$1,000m^2	$1,500m^2
Statutory	Savills averaged rates used in several former Development Contribution Plans published on the Wollongong City Council web-site + DA fees	Adopted Wollongong Contribution Plan by Wollongong City Council, Housing Productivity Contribution (discounted) and Sydney Water DSP charges (discounted) as per Government phase-in provisions + DA fees

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and Sydney Water DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.
- ** Building costs can vary significantly. The RLB Riders Digest 2024 provides a cost range per GFA for up to 10 storeys of $3,650 - $5,000 per square metre. Increasingly, owner-occupier expectations are driving higher specifications and finishes, leading to increased construction costs.

Illawarra-Shoalhaven City: **Greenfield** assumptions

The hypothetical greenfield development scenarios have adopted the following average costs and scenarios. It is important to note there are a range of prices across the suburbs in the Illawarra-Shoalhaven City and the examples are indicative averages for locations which have accommodated significant Greenfield developments recently.

	2018	2024*
Englobo land values ($m2 GFA or per unit)	Circa West Dapto: $80,000 per lot	Circa Austral: $80,000 per lot
Retail land value	Circa West Dapto: $360,000 per lot	Circa Austral: $460,000 per lot
Civils (per lot)	$50,000	$80,000
Professional fees/development management	$13,500	$20,000
Sales and marketing	$12,500	$18,000
Statutory fees	Adopted historic s7.11 from Wollongong City Council and the West Dapto Precinct Development Contributions Plan (2017)	Adopted s7.11 from West Dapto Contribution Plan (2020) by Wollongong City Council, Housing Productivity Contribution (discounted) and Sydney Water DSP charges (discounted) as per Government phase-in provisions.

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and Sydney Water DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.

07

RELEASE THE PRESSURE

Feasibility Results

Central Coast City:
Infill apartment feasibility

The feasibility outcomes for the tested infill apartment scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- The feasibility modelling indicates apartment development was at a level that was considered feasible in 2018.
- **In 2024, the same apartment development is not feasible** based on increased construction and finance costs**.**
- **In 2024, the same apartment development does not become feasible when Central Coast DSP charges and HPC charges are suspended;** some developers would proceed as the development margin is acceptable, however the lengthy planning approval timeframes result in a low IRR, which would likely deter a significant proportion of developers.
- **In 2024, when the planning timeframe is reduced to 12 months and no DSP or HPC charges are applied**, an IRR of 17.3% can be achieved. Although this IRR is typically viewed as being below the minimum benchmark, many developers would likely still choose to proceed.
- Reducing the planning timeframe further to 9 months, while maintaining the absence of DSP or HPC charges, results in a slightly higher IRR of 17.5%. However, most developers will likely perceive these IRRs as fairly similar. Considering the practicalities, a 12-month planning timeframe is far more achievable than a 9-month timeframe.
- **In 2024, shortened planning approval timeframes have the potential to greatly enhance residential development feasibility.** Although the development does not achieve the minimum benchmark of an 18% IRR, reducing the planning timeframe and eliminating DSP and HPC charges provides a crucial boost, encouraging developers to construct more apartments.

Central Coast City:
Infill apartment feasibility

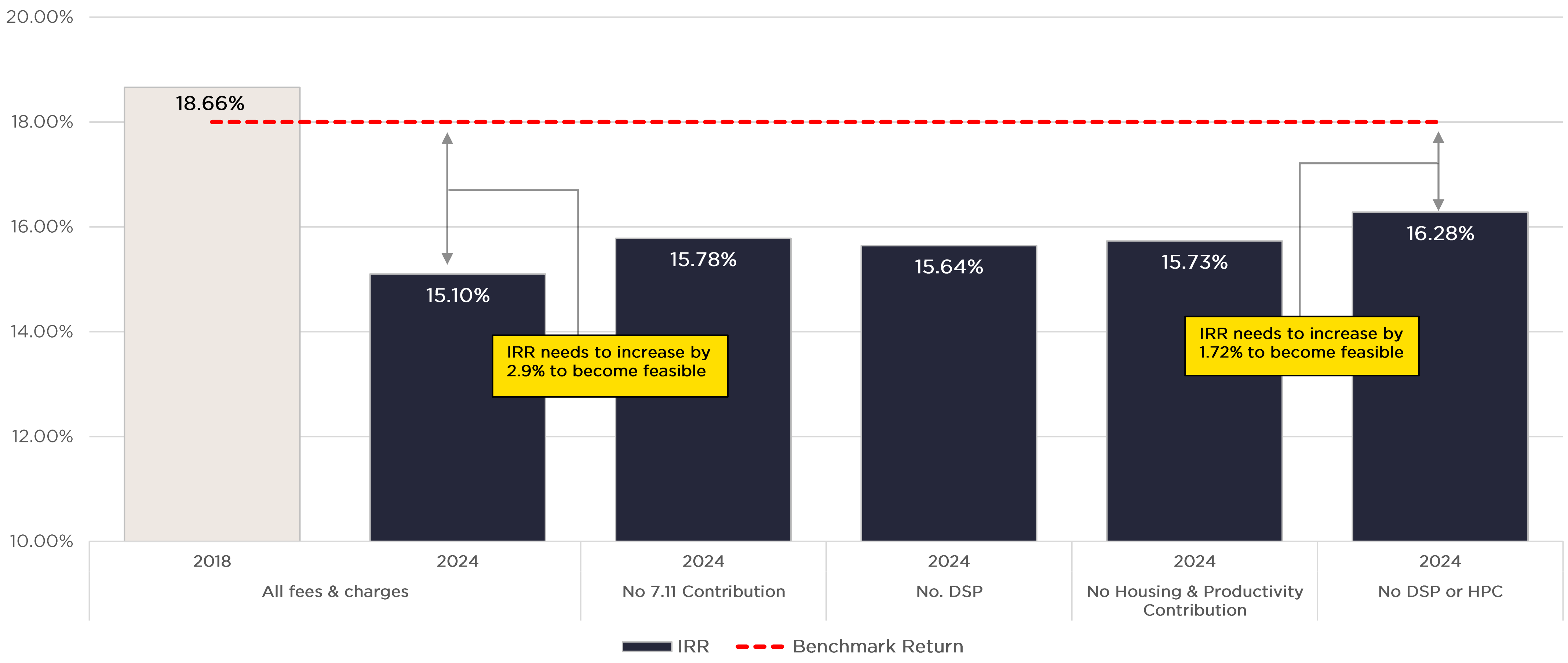


Figure 41 – Impact of changing State Government taxes and charges

Central Coast City:
Infill apartment feasibility

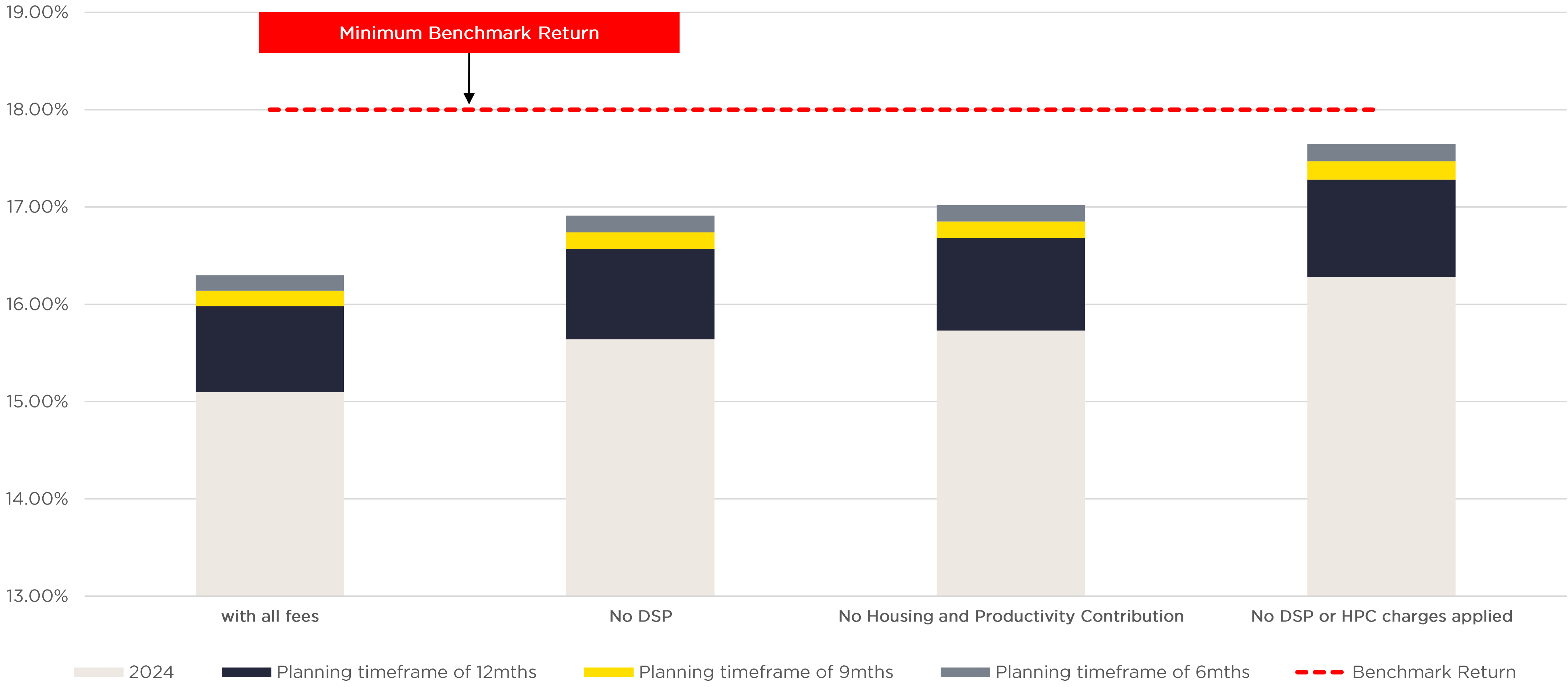


Figure 42 – Impact of changing State Government taxes and charges in 2024 and faster planning approval timeframes

Central Coast City: Greenfield development feasibility

The feasibility outcomes for the tested Greenfield scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- Typically, a zoned and serviced greenfield development of circa 115 lots has less risk and requires a lower return than a 150-unit apartment development, but these sites are very hard to find. There can be substantial delays with zoning and servicing (including roads and water and sewer) which increases risk.
- The feasibility modelling indicates greenfield development was feasible in 2018.
- **In 2024, the same greenfield development is not feasible** based on increased construction and financing costs.
- **In 2024, the same greenfield development becomes feasible if either Central Coast City DSP charges or HPC charges are suspended.** If all fees remain, greenfield development only becomes feasible if the planning timeframe is reduced to nine months.
- **However, by 2026 when full Central Coast HPC charges apply, the greenfield development is very unfeasible (circa 11.32% IRR).** even with discounts applied and the planning timeframe reduced to 12 months, development is still considered unfeasible (13.17%).
- **In 2026, greenfield development only becomes feasible when DSP and HPC charges are absent (15.07% IRR). The IRR is still relatively low and accordingly the modelled scenario continues to present a risky prospect.**

Central Coast City:
Greenfield development feasibility:

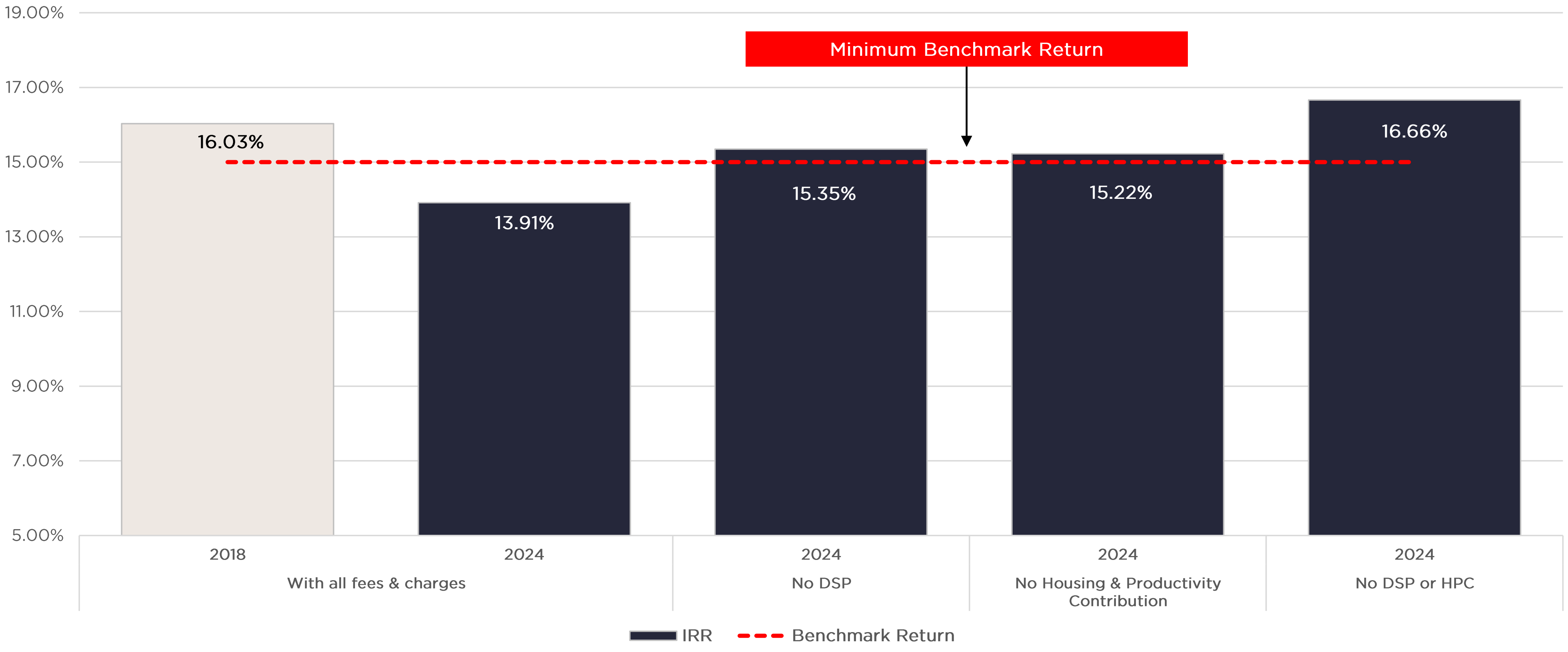


Figure 43 – Impact of changing State Government taxes and charges 2024

Central Coast City:
Greenfield development feasibility:

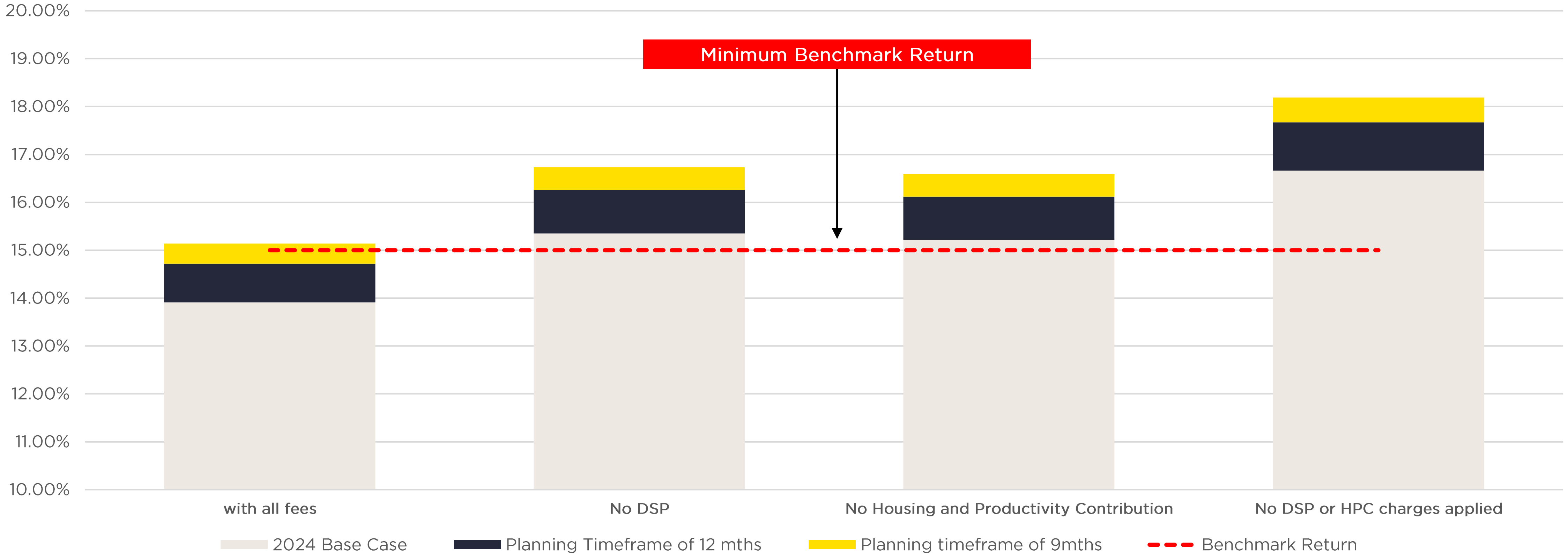


Figure 44 – Impact of changing State Government taxes and charges 2024 and faster planning approval timeframes

Central Coast City:
Greenfield development feasibility:

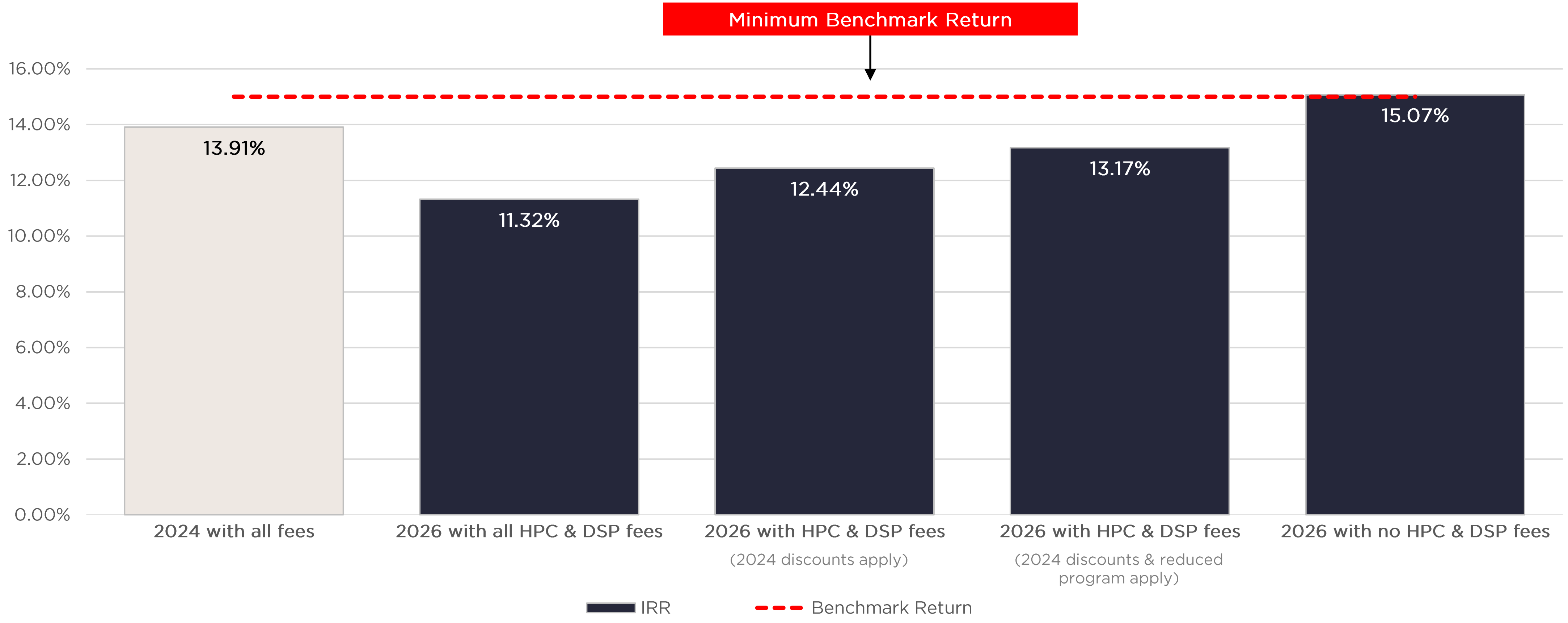


Figure 45 – Impact of changing taxes and charges and approval times in 2026

Lower Hunter City & Greater Newcastle:
Infill apartment feasibility

The feasibility outcomes for the tested infill apartment scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- The feasibility modelling indicates apartment development was feasible in 2018.
- **In 2024, the same apartment development is not feasible** based on increased construction and financing costs.
- **In 2024, the same apartment development becomes closer to being feasible when Section 7.11 Contributions are suspended (17.85%).** Most developers would proceed as the development margin is acceptable and the Internal Rate of Return is only just below the minimum benchmark.
- **In 2024, if the apartment development could be approved in 12 months rather than 18 months, and Hunter Water DSP charges and HPC charges were suspended, development would be feasible for most developers.**
- **In 2024, suspension of HPC and Hunter Water DSP charges combined with reduced planning approval timeframes have the potential to significantly improve residential development feasibility.**
  - Suspending HPC charges only (i.e.: retaining Hunter Water DSP charges) combined with a maximum planning approval timeframe of 6 months planning approval timeframe exceeds the minimum benchmark.
  - Suspending both the HPC and Hunter Water DSP charges with a maximum 9 months planning approval timeframe almost reaches the minimum benchmark. Most developers would consider this scenario feasible.
  - We note the impact of removing the DSP charge in the Lower Hunter & Greater Newcastle City varies significantly; the studied area of Wickham only experiences water charges of $1,079.25 and $0 for wastewater per equivalent tenement (ET). However, these charges can be as high as $8,700 per ET for water and $20,500 per ET for wastewater.

Lower Hunter City & Greater Newcastle:
Infill apartment feasibility

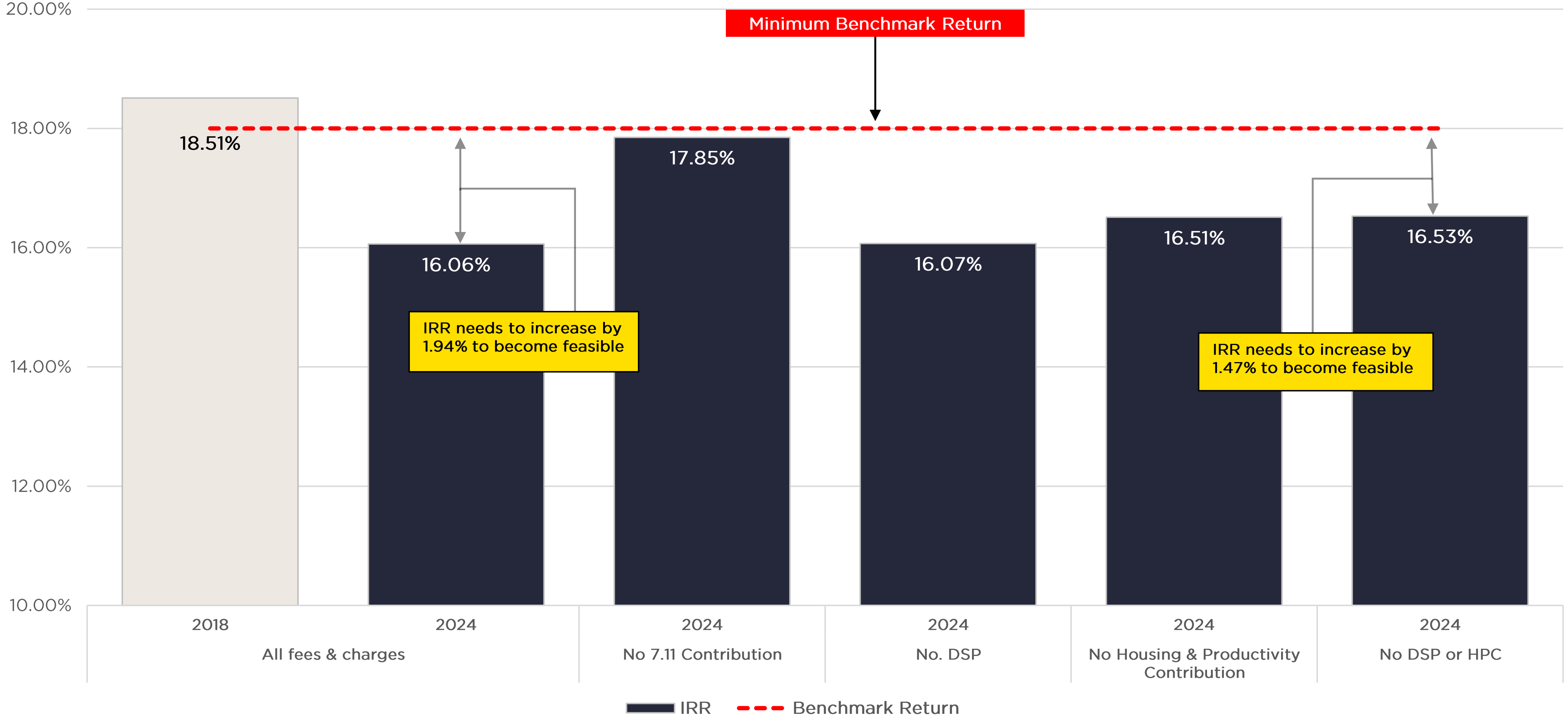


Figure 46 – Impact of changing State Government taxes and charges

Lower Hunter City & Greater Newcastle: Infill apartment feasibility

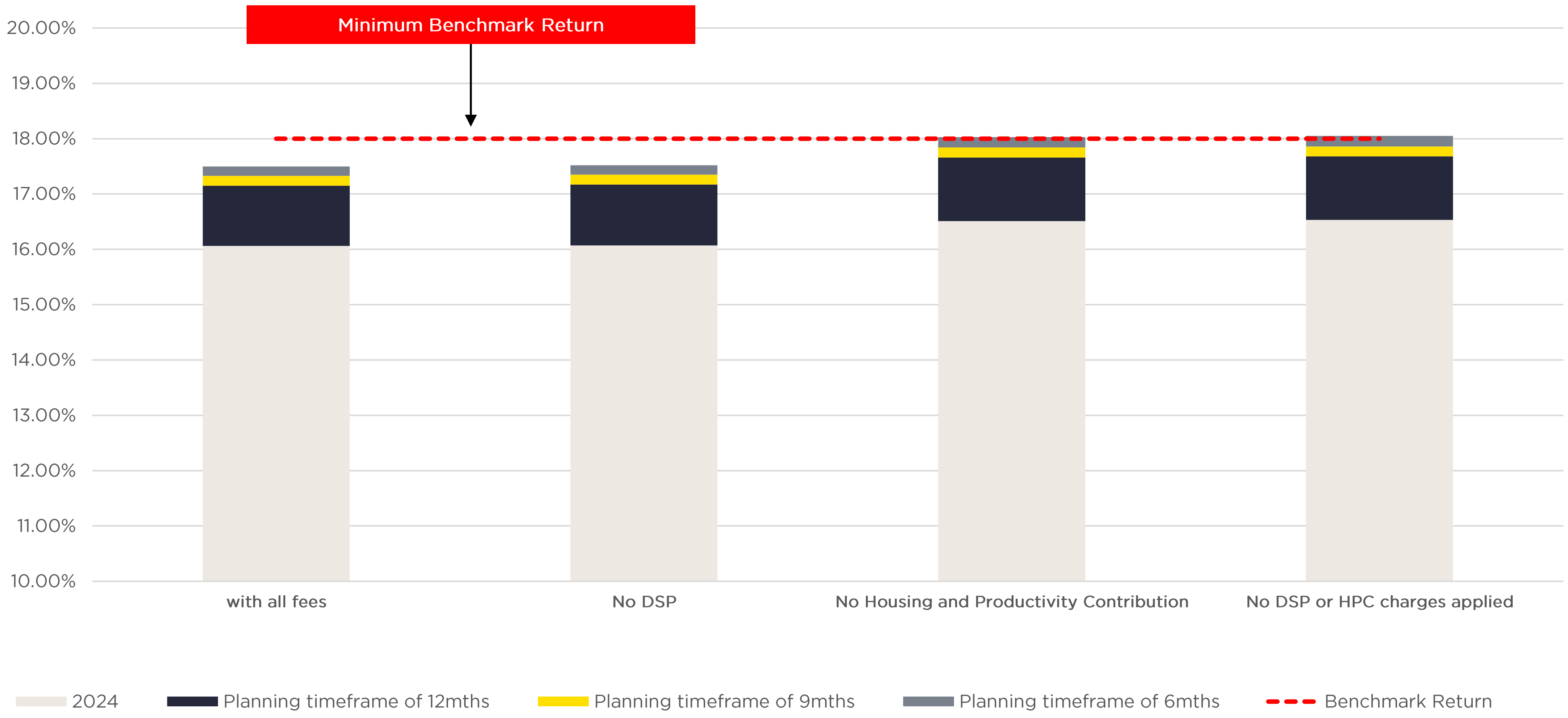


Figure 47 – Impact of changing State Government taxes and charges 2024 and faster planning approval timeframes

Lower Hunter & Greater Newcastle City: Greenfield development feasibility

The feasibility outcomes for the tested Greenfield scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- Typically, a zoned and serviced greenfield development of circa 115 lots has less risk and requires a lower return than a 250-unit apartment development, but these sites are very hard to find. There can be substantial delays with zoning and servicing (including roads, and water and sewer) and the assessment and negotiation of biodiversity conservation values, which increases risk.
- The feasibility modelling indicates greenfield development was feasible in 2018.
- **In 2024, the same greenfield development is not feasible** based on increased construction and financing costs.
- **By 2026 when full DSP and HPC charges apply, the greenfield development is even less feasible (13.1% IRR).** To ensure the Greenfield development was feasible in 2026, current discounts (50% HPC and 75% Hunter Water DSP charges) would need to be maintained. Alternatively, to help development achieve benchmark returns, the Government could also fast-track planning approvals.
- **In 2024, fast-tracking planning approval timeframes has the most significant impact on development feasibility.** When the planning approval timeframe is reduced to 12 months, the internal rate of return (16.58%) significantly exceeds the minimum benchmark return required (15%), even when HPC and DSP charges remain.

Lower Hunter & Greater Newcastle City:
Greenfield development feasibility:

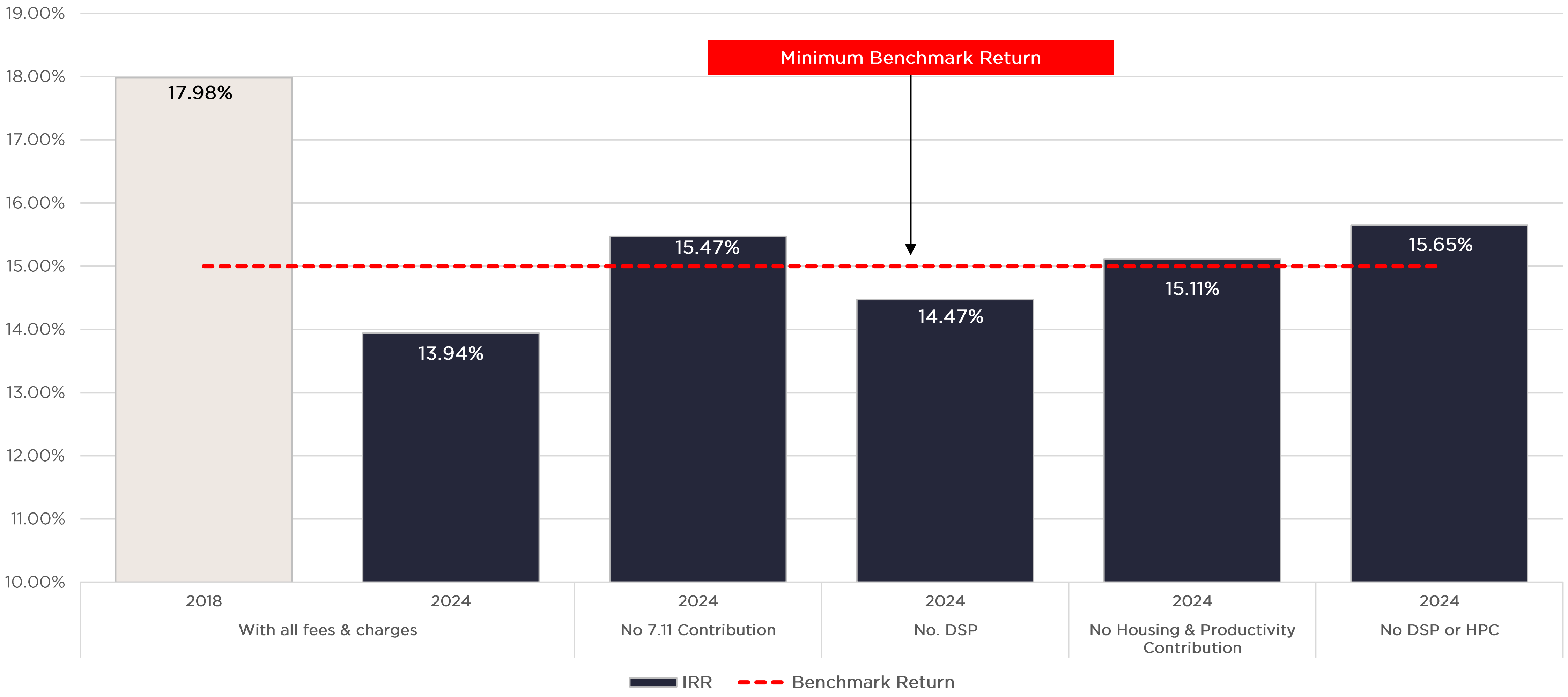


Figure 48 – Impact of changing State Government taxes and charges 2024

Lower Hunter & Greater Newcastle City:
Greenfield development feasibility:

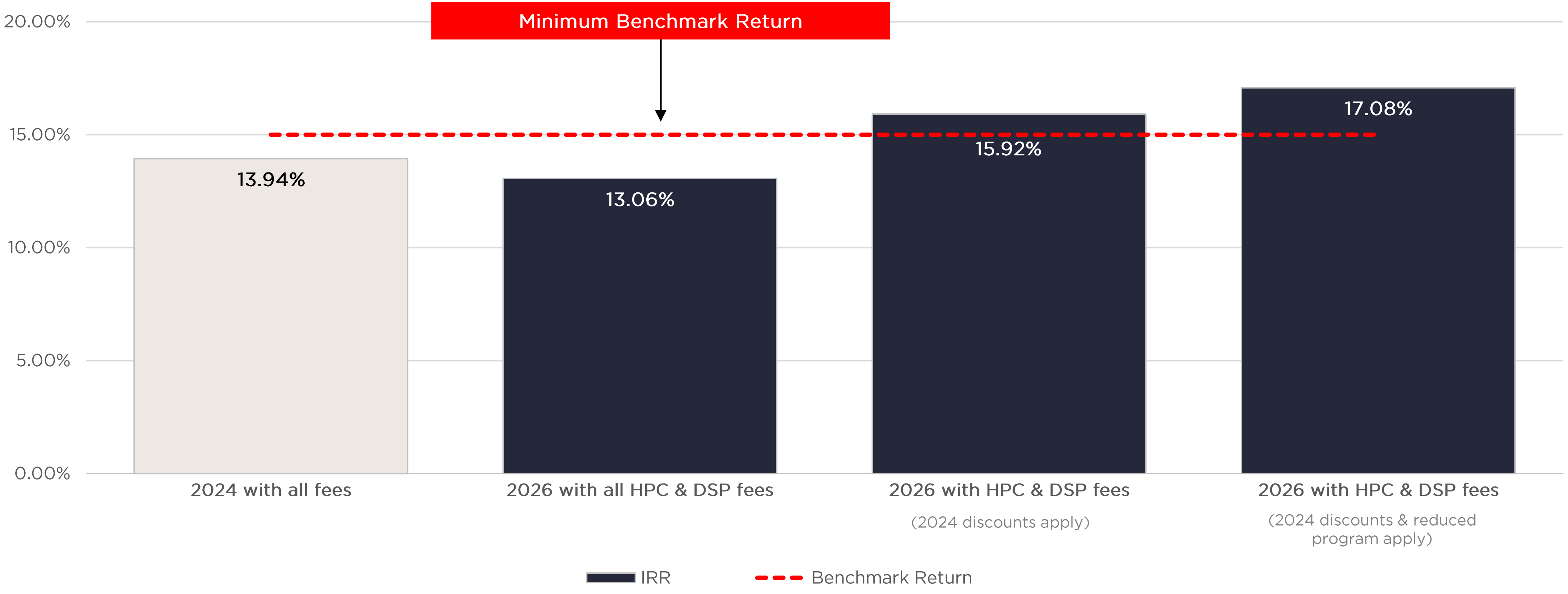


Figure 49 – Impact of changing taxes and charges and approval times in 2026

Lower Hunter & Greater Newcastle City: Greenfield development feasibility:

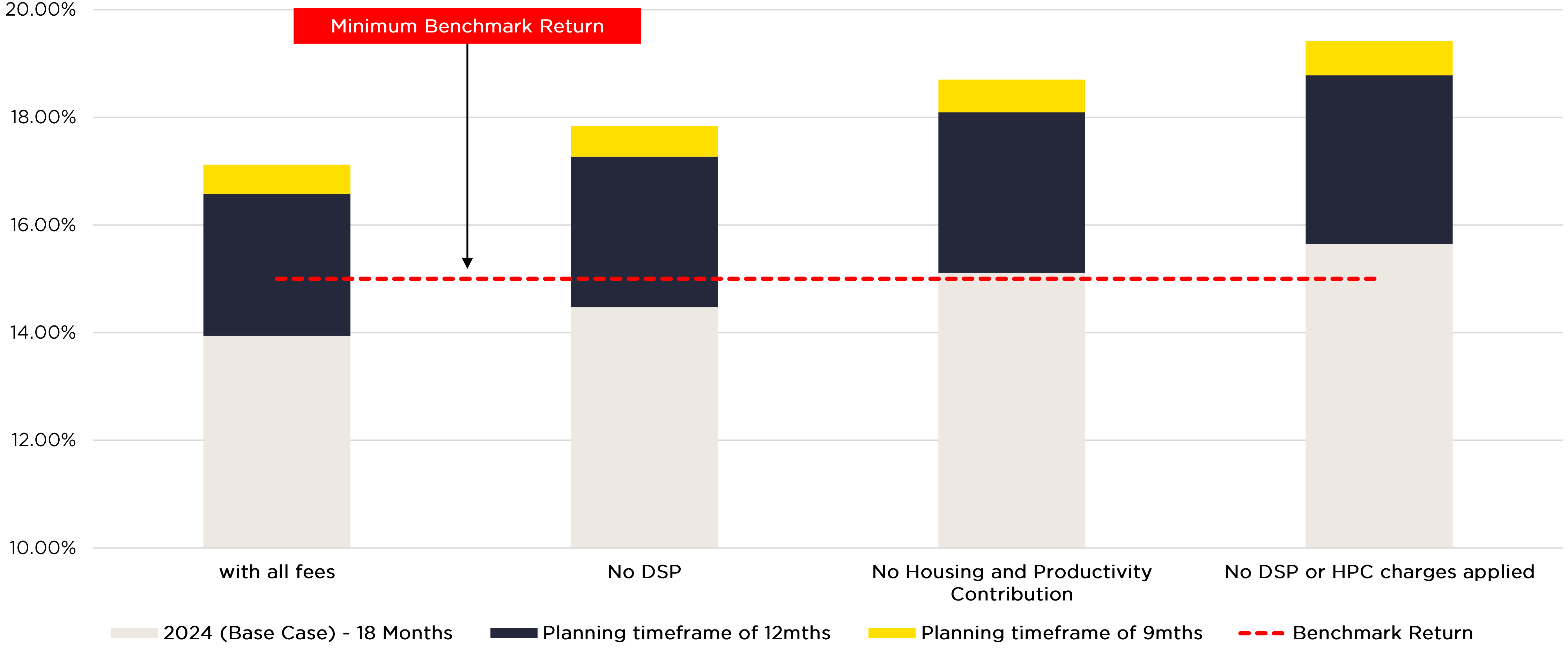


Figure 50 – Impact of changing State Government taxes and charges 2024 and faster planning approval timeframes

Eastern Harbour City:
Infill apartment feasibility

The feasibility outcomes for the tested infill apartment scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- The feasibility modelling indicates apartment development was at a level that was considered marginally feasible in 2018.
- **In 2024, the same apartment development is not feasible** based on increased construction costs, interest rates and the cost of finance**.**
- **In 2024, the same apartment development does not become feasible when Sydney Water DSP charges and HPC charges are suspended.** Some developers would proceed as the development margin is acceptable, however the lengthy planning approval timeframes result in a low IRR, which would be a deterrent to other developers who would not start the project.
- **In 2024, if the apartment development could be approved in 12 months rather than 18 months, and Sydney Water DSP charges and HPC charges were suspended, development would be feasible for most developers.**
- **In 2024, reduced planning approval timeframes have the potential to significantly improve residential development feasibility.** The apartment development becomes feasible when the planning approval timeframe is limited to a maximum 9 months, even when HPC and Sydney Water DSP charges remain in place.
- We note the impact of removing the Sydney Water DSP charges is lower in Macquarie Park/Ryde than in many other areas as the discounted charge is $1,002 per equivalent tenement (per dwelling) + CPI. In other areas in the Eastern Harbour City, the Sydney Water DSP charges is nil per dwelling.

Eastern Harbour City: **Infill apartment feasibility**

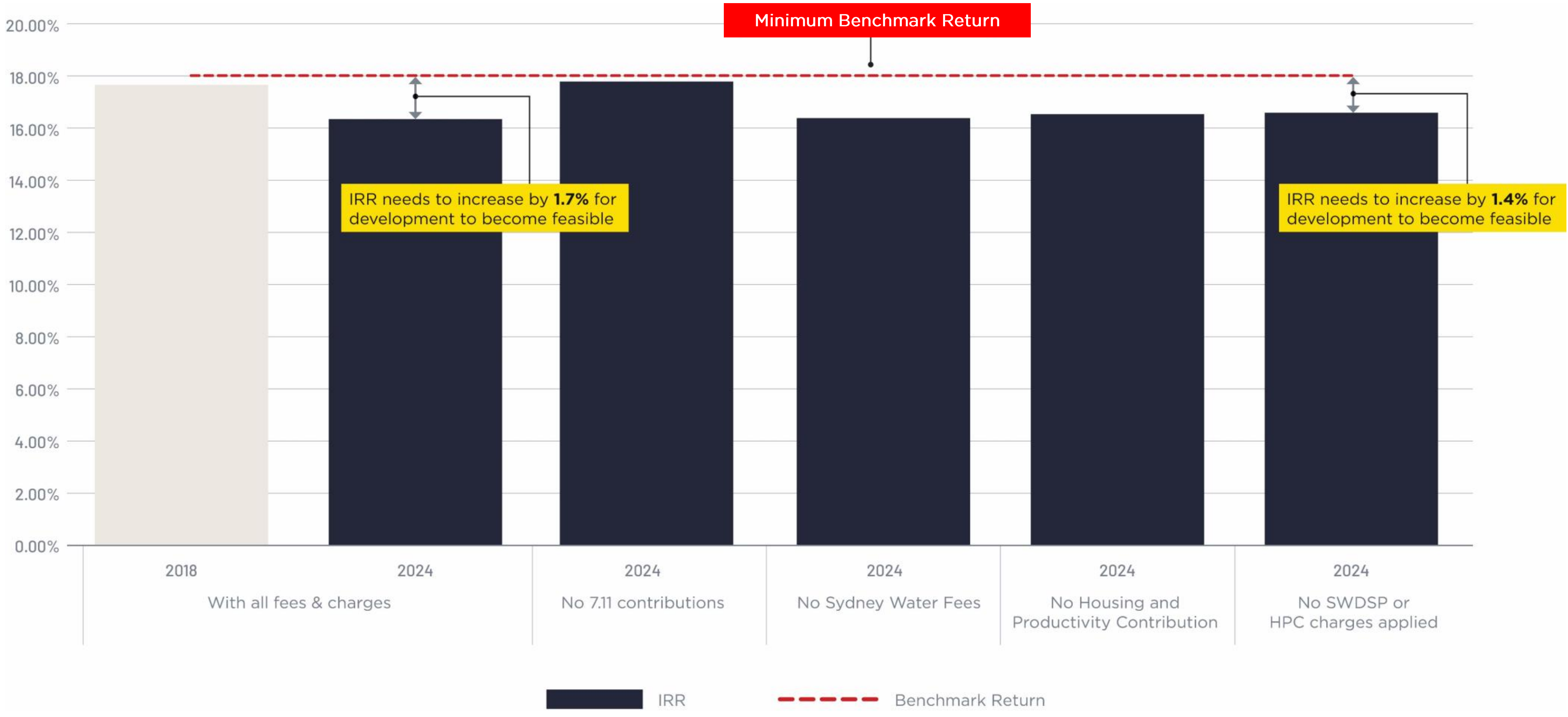


Figure 51 – Impact of changing State Government taxes and charges 2024

Eastern Harbour City:
Infill apartment feasibility

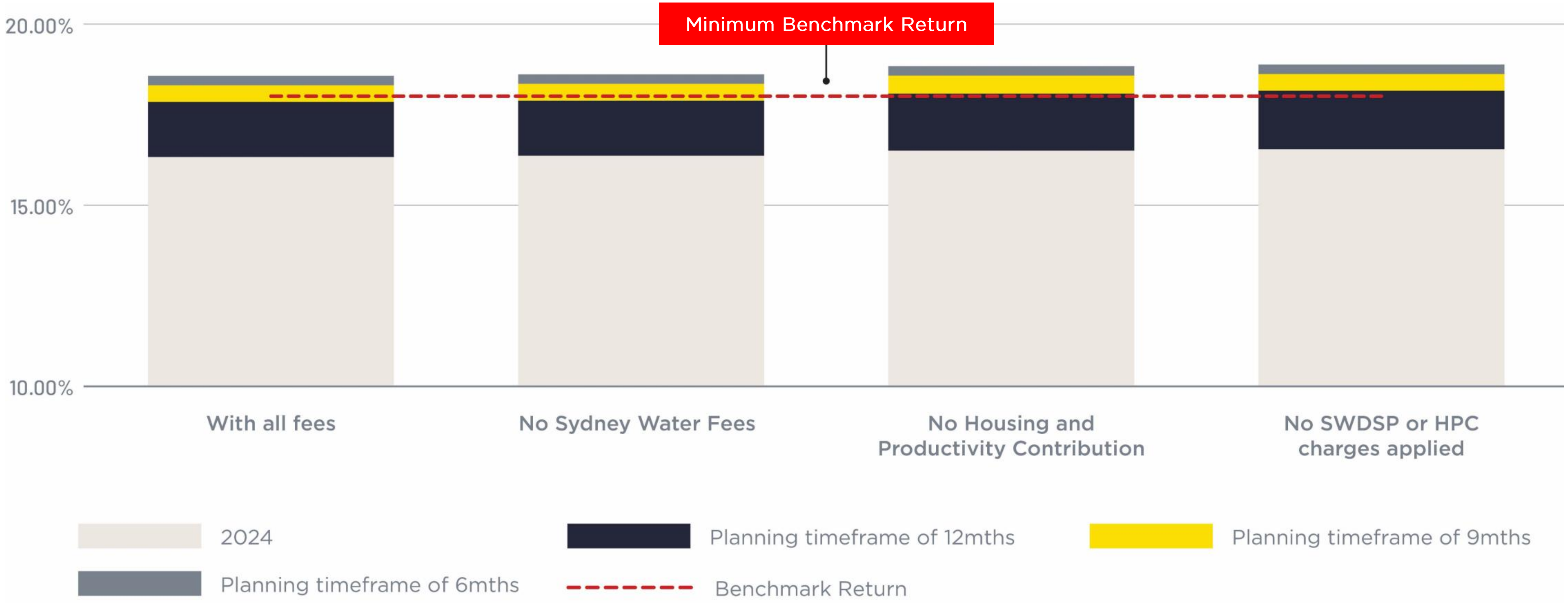


Figure 52 – Impact of changing State Government taxes and charges in 2024 and faster planning approval timeframes

Central River City:
Infill apartment feasibility

The feasibility outcomes for the tested infill apartment scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- The feasibility modelling indicates apartment development was feasible in 2018.
- **In 2024, the same apartment development is not feasible** based on increased construction costs, interest rates and the cost of finance**.**
- **In 2024, the same apartment development becomes closer to being feasible when Sydney Water DSP charges and HPC charges are suspended.** Some developers would proceed as the development margin is acceptable, but due to a long planning period, the Internal Rate of Return is low, and some would not start the project.
- **In 2024, if the apartment development could be approved in 12 months rather than 18 months, and Sydney Water DSP charges and HPC charges were suspended, development would be feasible for most developers.**
- We note the impact of removing the Sydney Water DSP charges is lower in Parramatta/Carlingford than in many other areas as the discounted charge is $967 per equivalent tenement (per house) + CPI. In other areas in the Central River City, the Sydney Water DSP charges are over $9,465 per house.

Central River City:
Infill apartment feasibility

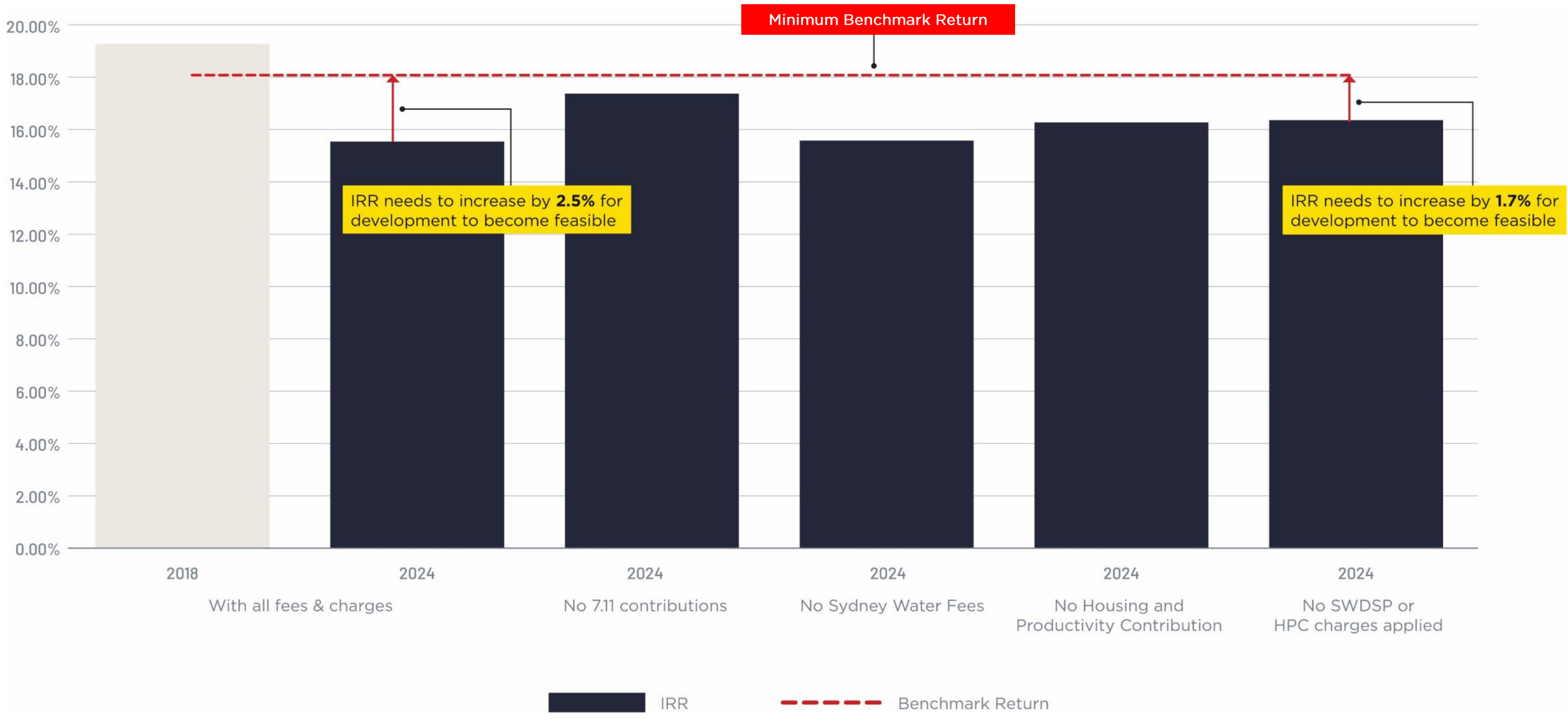


Figure 53 – Impact of changing State Government taxes and charges

Central River City:
Infill apartment feasibility

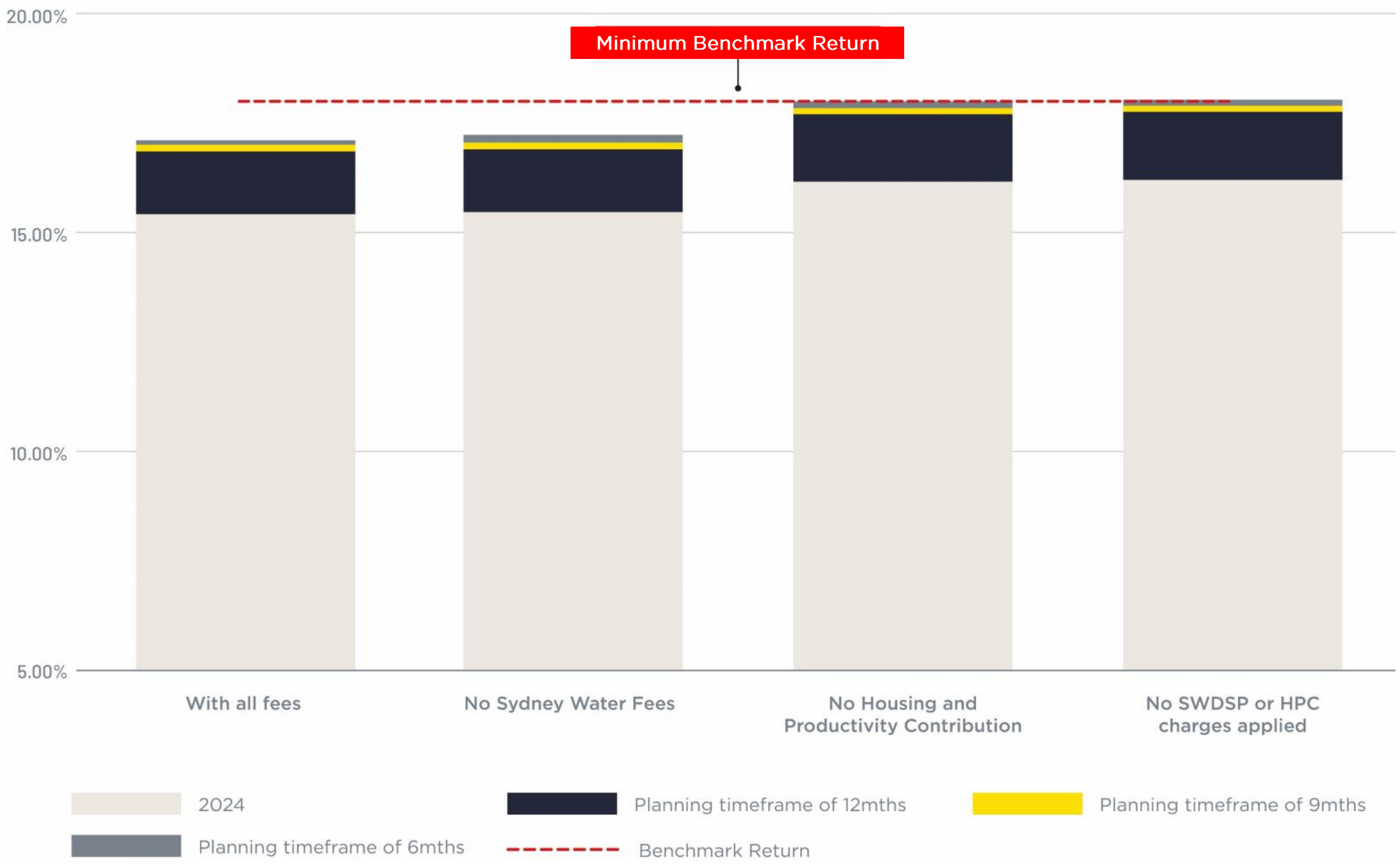


Figure 54 – Impact of changing State Government taxes and charges 2024 and faster planning approval timeframes

Central River City:
Greenfield development feasibility

The feasibility outcomes for the tested Greenfield scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- Typically, a zoned and serviced greenfield development of circa 115 lots has less risk and requires a lower return than a 250-unit apartment development, but these sites are very hard to find. There can be substantial delays with zoning and servicing (including roads and water and sewer) which increases risk.
- The feasibility modelling indicates greenfield development was feasible in 2018.
- **In 2024, the same greenfield development is not feasible** based on increased construction costs, interest rates and the cost of finance.
- **In 2024, the same greenfield development becomes feasible if Sydney Water DSP charges and HPC charges are suspended.**
- **However, by 2026 when full Sydney Water DSP charges and HPC charges apply, the greenfield development is very unfeasible (circa 11.7% IRR).** To ensure the Greenfield development was feasible in 2026, current discounts (25% HPC) and (50% Sydney Water DSP charges) would need to be maintained. Alternatively, to help the project achieve benchmark returns, the Government could also fast-track planning approvals by 4 months which also results in the development becoming feasible, enabling it to proceed.
- **In 2024, reduced planning approval timeframes have the greatest potential to significantly improve residential development feasibility.** The apartment development becomes feasible when the planning approval timeframe is reduced to 6 months, even when HPC and Sydney Water DSP charges remain in place.

Central River City:
Greenfield development feasibility:

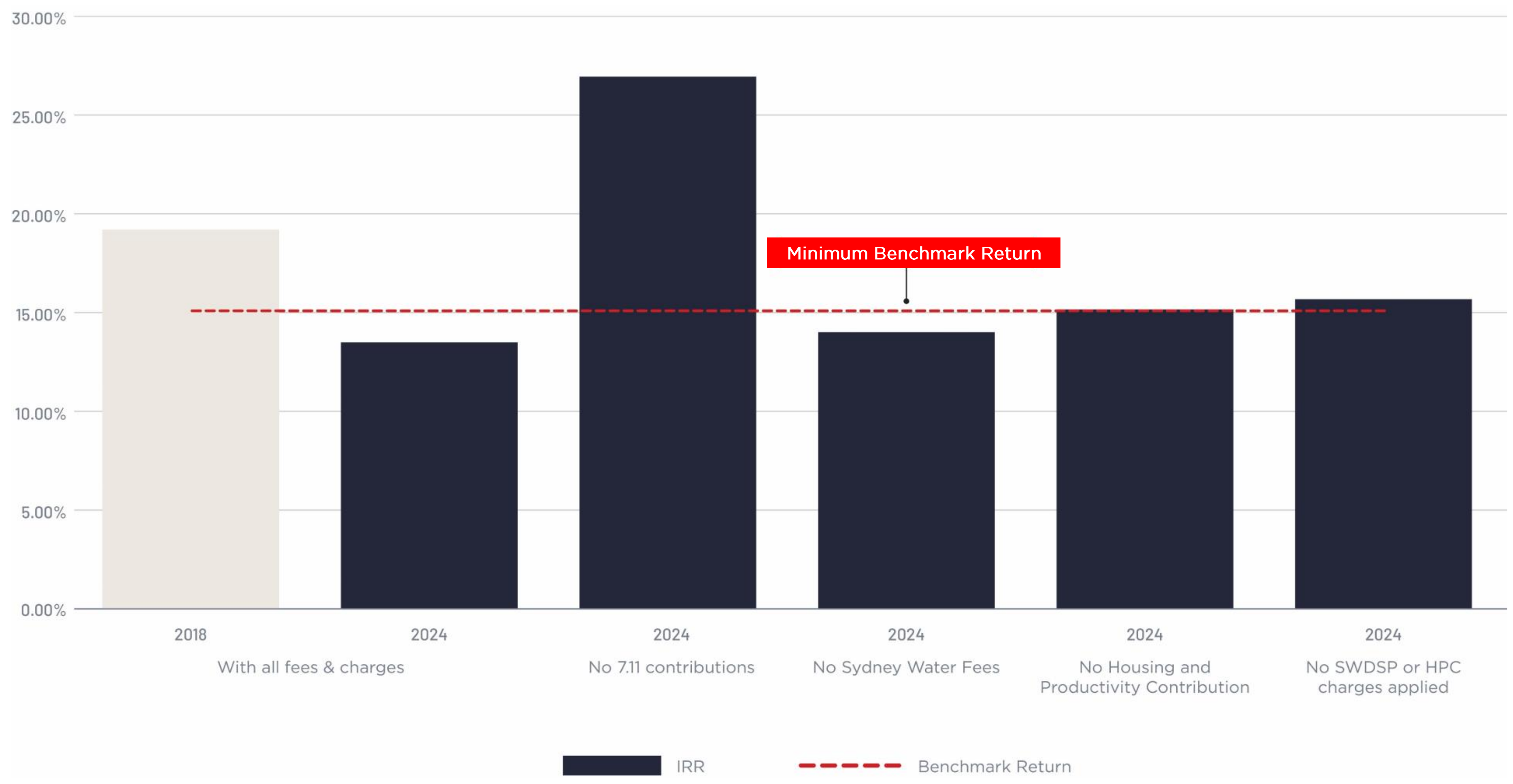


Figure 55 – Impact of changing State Government taxes and charges 2024

Central River City:
Greenfield development feasibility:

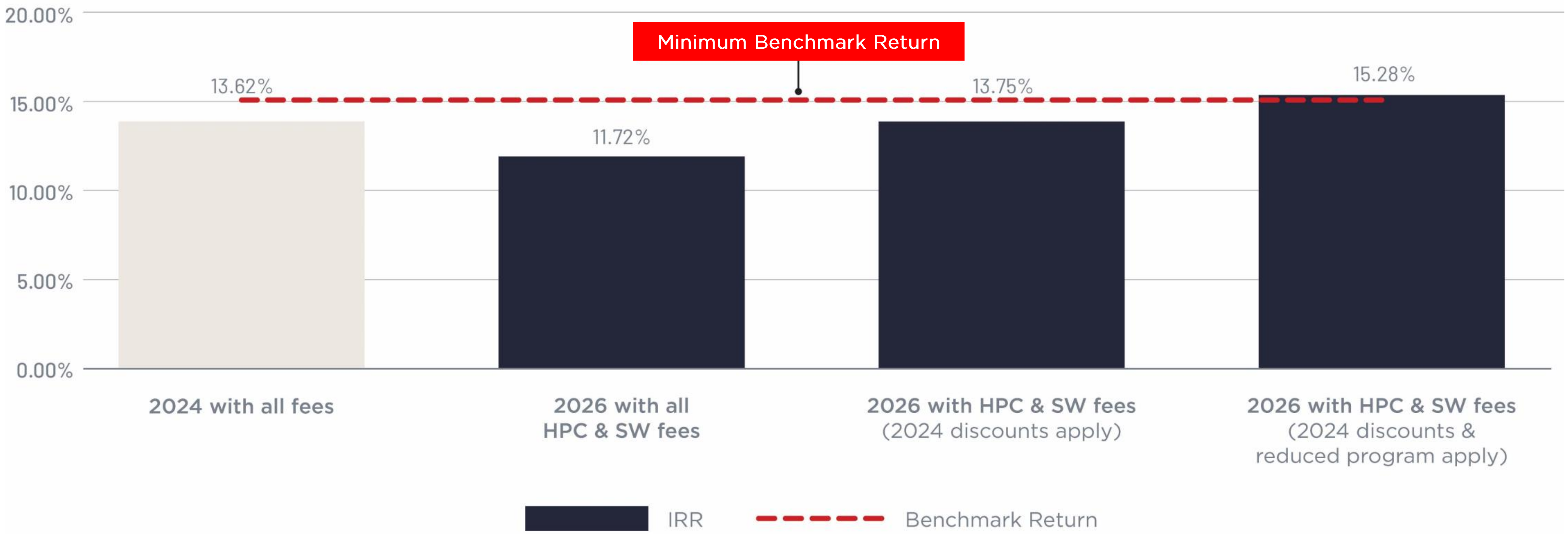


Figure 56 – Impact of changing taxes and charges and approval times in 2026

Central River City:
Greenfield development feasibility:

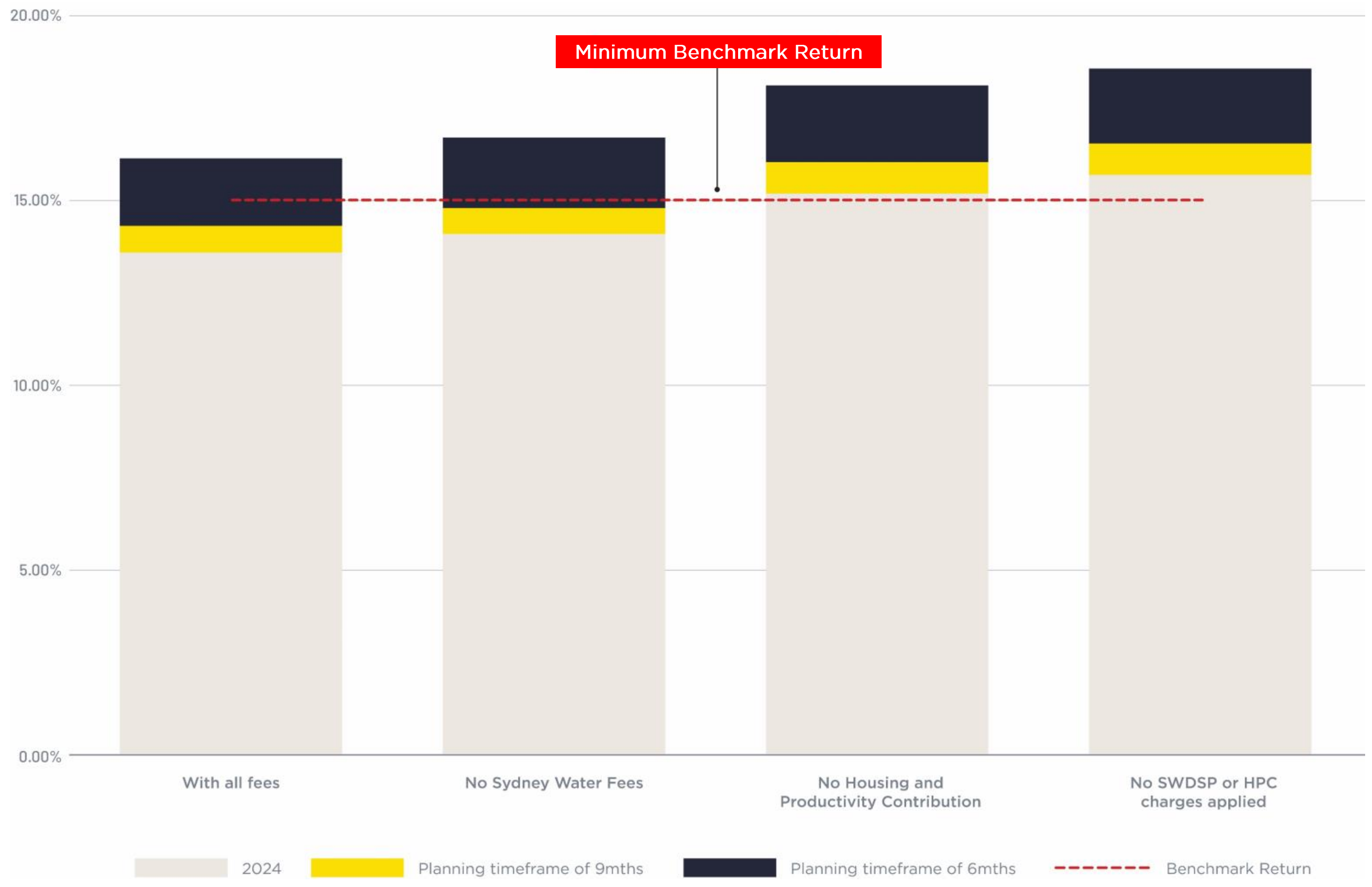


Figure 57 – Impact of changing State Government taxes and charges 2024 and faster planning approval timeframes

Western Parkland City:
Infill apartment feasibility

The feasibility outcomes for the tested infill apartment scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- The feasibility modelling indicates apartment development was feasible in 2018.
- **In 2024, the same apartment development is not feasible** based on increased construction costs, interest rates and the cost of finance.
- **In 2024, the same apartment development becomes closer to being feasible when Sydney Water DSP charges and HPC charges are suspended.** Some developers would proceed as the development margin is acceptable, but due to a long planning period, the Internal Rate of Return is low, and some would not start the project.
- **In 2024, if the apartment development could be approved in 12 months rather than 18 months, and Sydney Water DSP charges and HPC charges were suspended, development would be feasible for most developers.**
- **In 2024, suspension of HPC and Sydney Water DSP charges combined with reduced planning approval timeframes have the potential to significantly improve residential development feasibility.**
  - Suspending HPC charges only (i.e.: retaining Sydney Water DSP charges) combined with a maximum planning approval timeframe of 6 months planning approval timeframe exceeds the minimum benchmark.
  - Suspending both the HPC and Sydney Water DSP charges with a maximum 9 months planning approval timeframe exceeds the minimum benchmark.
- We note the impact of removing the Sydney Water DSP charges is positive in Liverpool at is $4,988 per equivalent tenement (per dwelling) + CPI. There are a range of Sydney Water DSP charges across the Western Parkland City from around $1,000 per house to over $45,000 per house.

Western Parkland City: Infill apartment feasibility

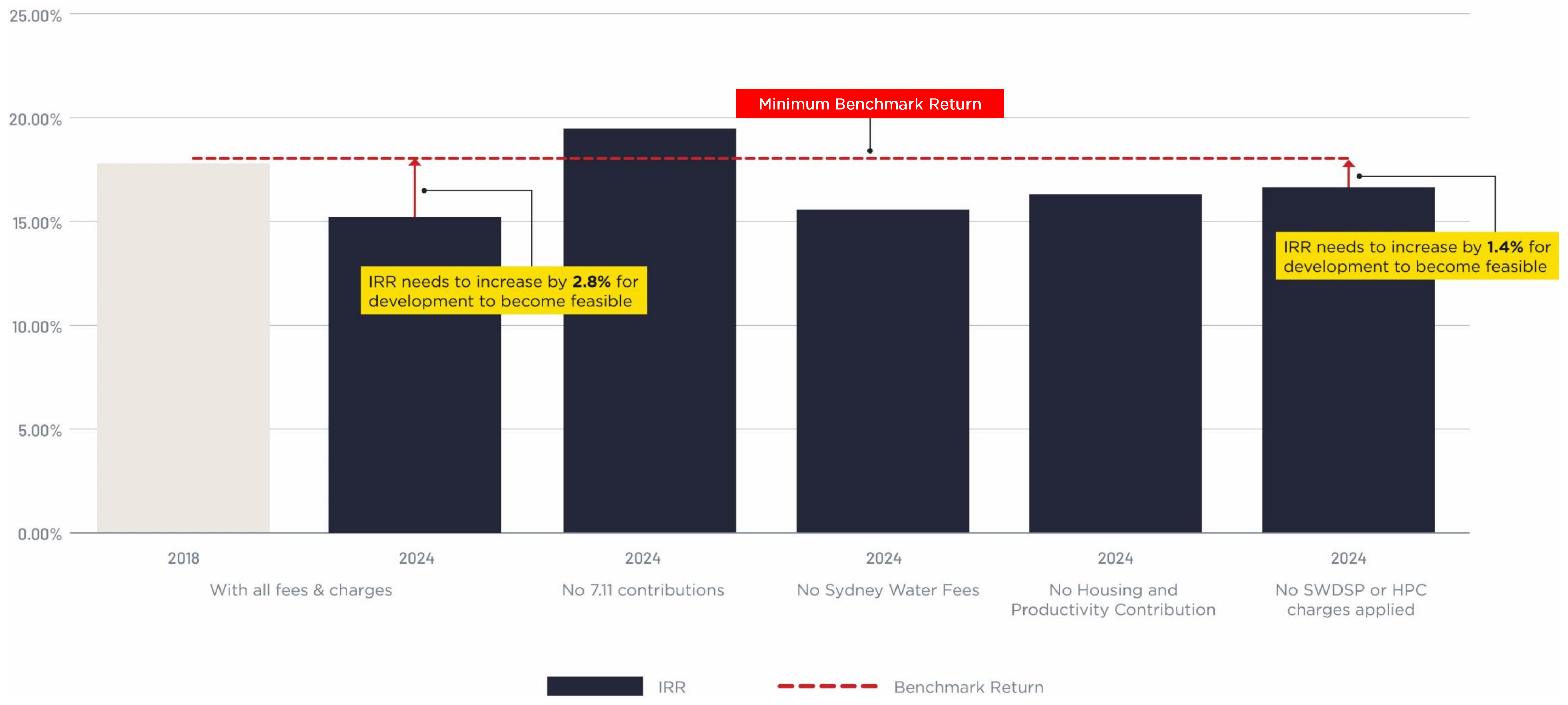


Figure 58 – Impact of changing State Government taxes and charges

Western Parkland City:
Infill apartment feasibility

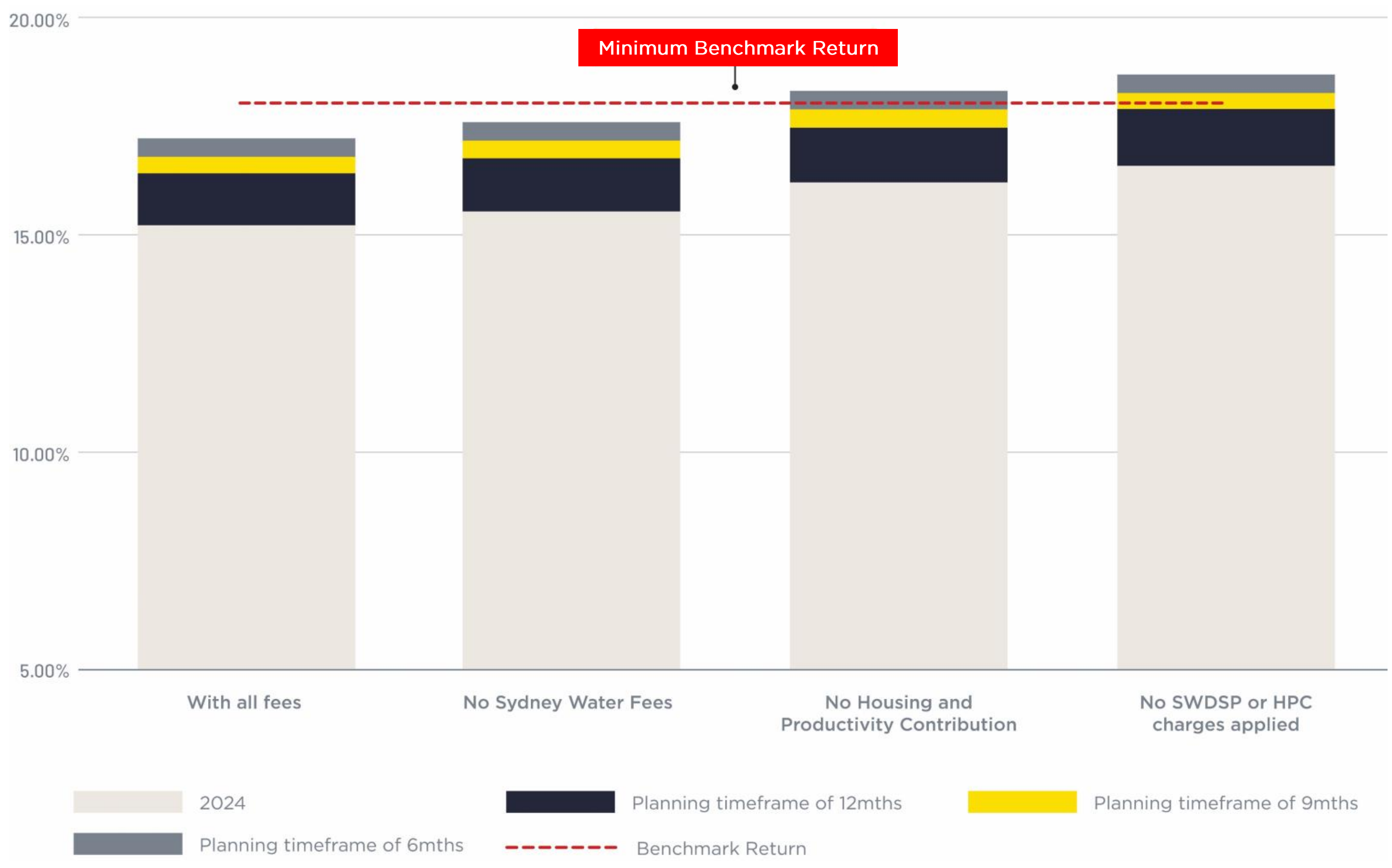


Figure 59 – Impact of changing State Government taxes and charges 2024 and faster planning approval timeframes

Western Parkland City:
Greenfield development feasibility

The feasibility outcomes for the tested Greenfield scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- Typically, a zoned and serviced greenfield development of circa 115 lots has less risk than a 250-unit apartment development, but these sites are very hard to find. There are substantial delays with servicing (including roads and water and sewer) especially in new growth areas.
- The feasibility modelling indicates greenfield development was feasible in 2018.
- **In 2024, the same greenfield development is not feasible** based on increased construction costs, interest rates and the cost of finance.
- **In 2024, the same greenfield development just becomes feasible if Sydney Water DSP charges and HPC charges are suspended.**
- **By 2026 with full Sydney Water DSP charges and HPC charges the greenfield development becomes very unfeasible.** To ensure the greenfield development was feasible in 2026, current discounts (25% HPC) and (50% Sydney Water DSP charges) would need to be maintained. Alternatively, to help the project achieve benchmark returns, the Government could also fast-track planning approvals by 4 months which also results in the development becoming feasible, enabling it to proceed.
- **In 2024, reduced planning approval timeframes have the greatest potential to significantly improve residential development feasibility.**
  - Suspending Sydney Water DSP or HPC charges combined with a maximum planning approval timeframe of 6 months planning approval timeframe exceeds the minimum benchmark.
  - Suspending both HPC and Sydney Water DSP charges combined with a maximum 9-month planning approval timeframe makes development very feasible.

Western Parkland City: Greenfield development feasibility

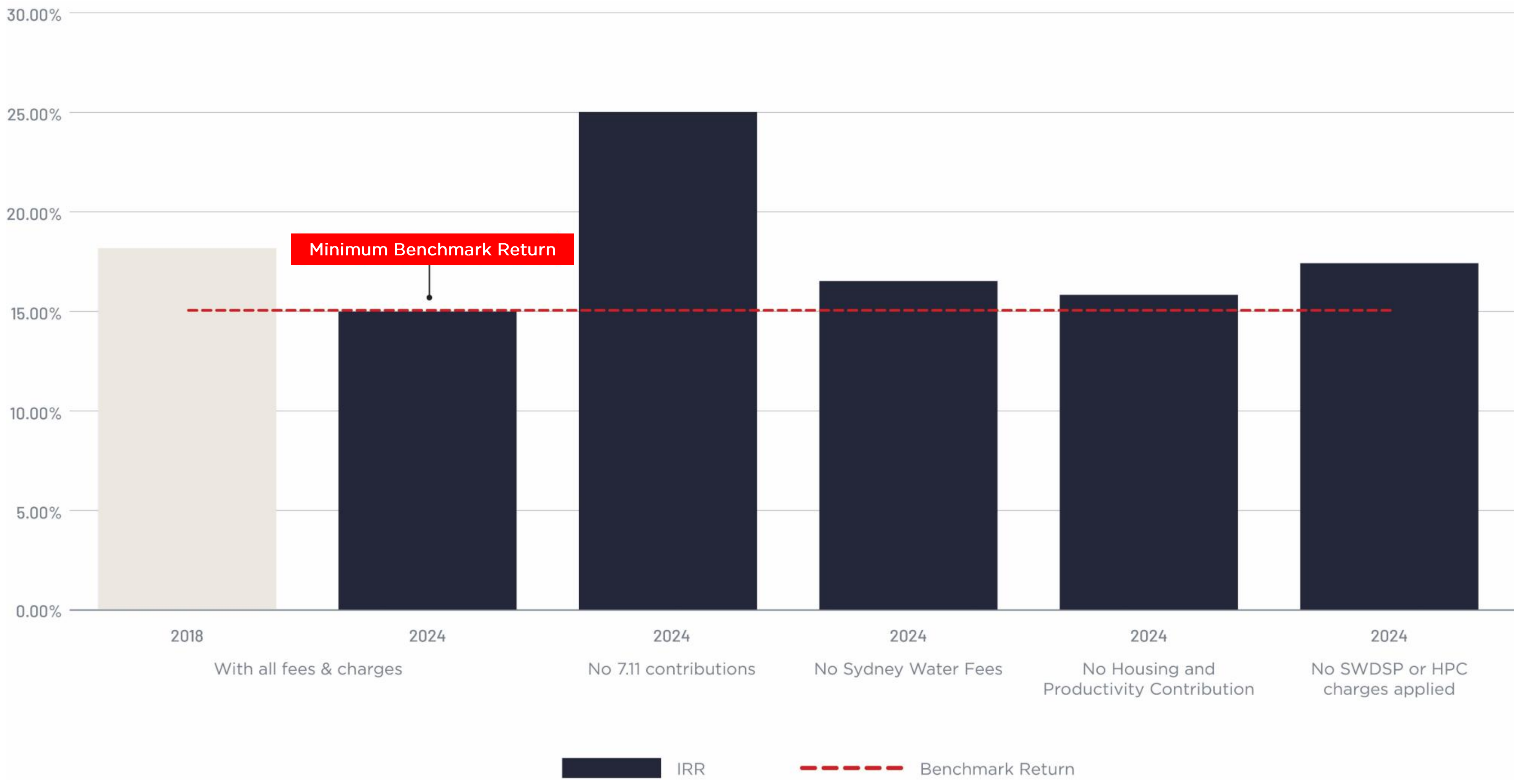


Figure 60 – Impact of changing State Government taxes and charges 2024

Western Parkland City: Greenfield development feasibility

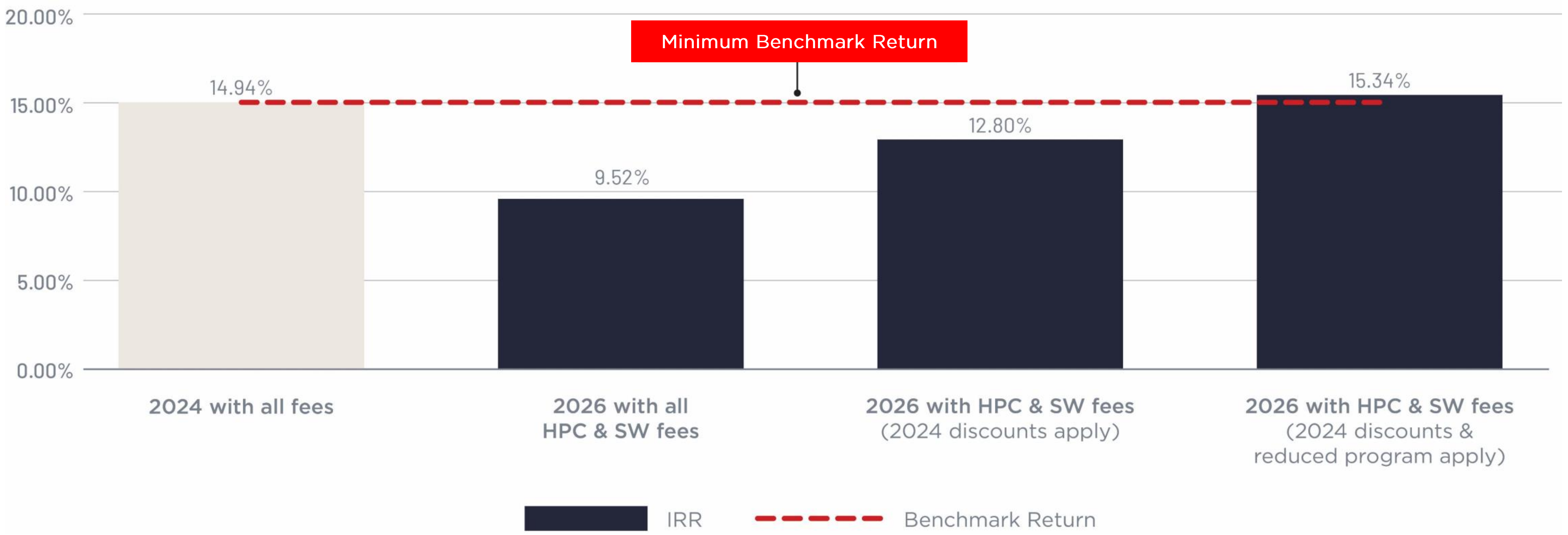


Figure 61 – Impact of changing taxes and charges and approval times in 2026

Western Parkland City:
Greenfield development feasibility

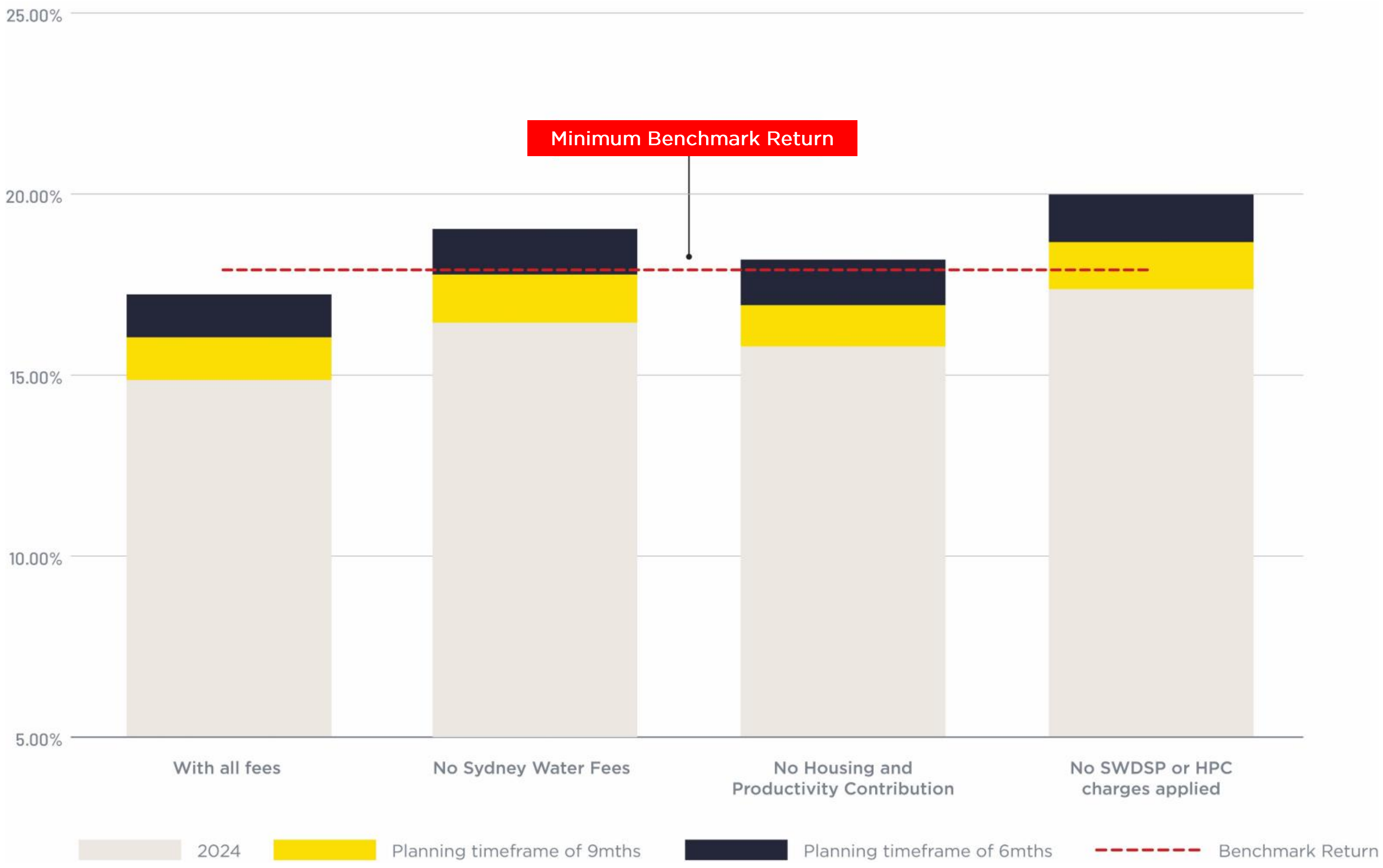


Figure 62 – Impact of changing State Government taxes and charges 2024 and faster planning approval timeframes

Illawarra-Shoalhaven City:
Infill apartment feasibility

The feasibility outcomes for the tested infill apartment scenarios illustrate the impact of Government fees and charges. In summary, the tested scenarios reveal:

- The feasibility modelling indicates apartment development was feasible in 2018.
- **In 2024, the same apartment development is not feasible** based on increased construction costs, interest rates and the cost of finance**.**
- **In 2024, the same apartment development becomes closer to being feasible when Sydney Water DSP charges and HPC charges are suspended.** Some developers would proceed as the development margin is acceptable, however the lengthy planning approval timeframes result in a low IRR, which would be a deterrent to other developers who would not start the project.
- **In 2024, if the apartment development could be approved in 6 months rather than 18 months, and Sydney Water DSP charges and HPC charges were suspended, development would be feasible for most developers.**
- We note the impact of removing the Sydney Water DSP charges in the Wollongong CBD than in many other areas no charges currently apply. In other areas in the Illawarra-Shoalhaven, the Sydney Water DSP charges are over $17,318 per dwelling.

Illawarra-Shoalhaven City:
Infill apartment feasibility

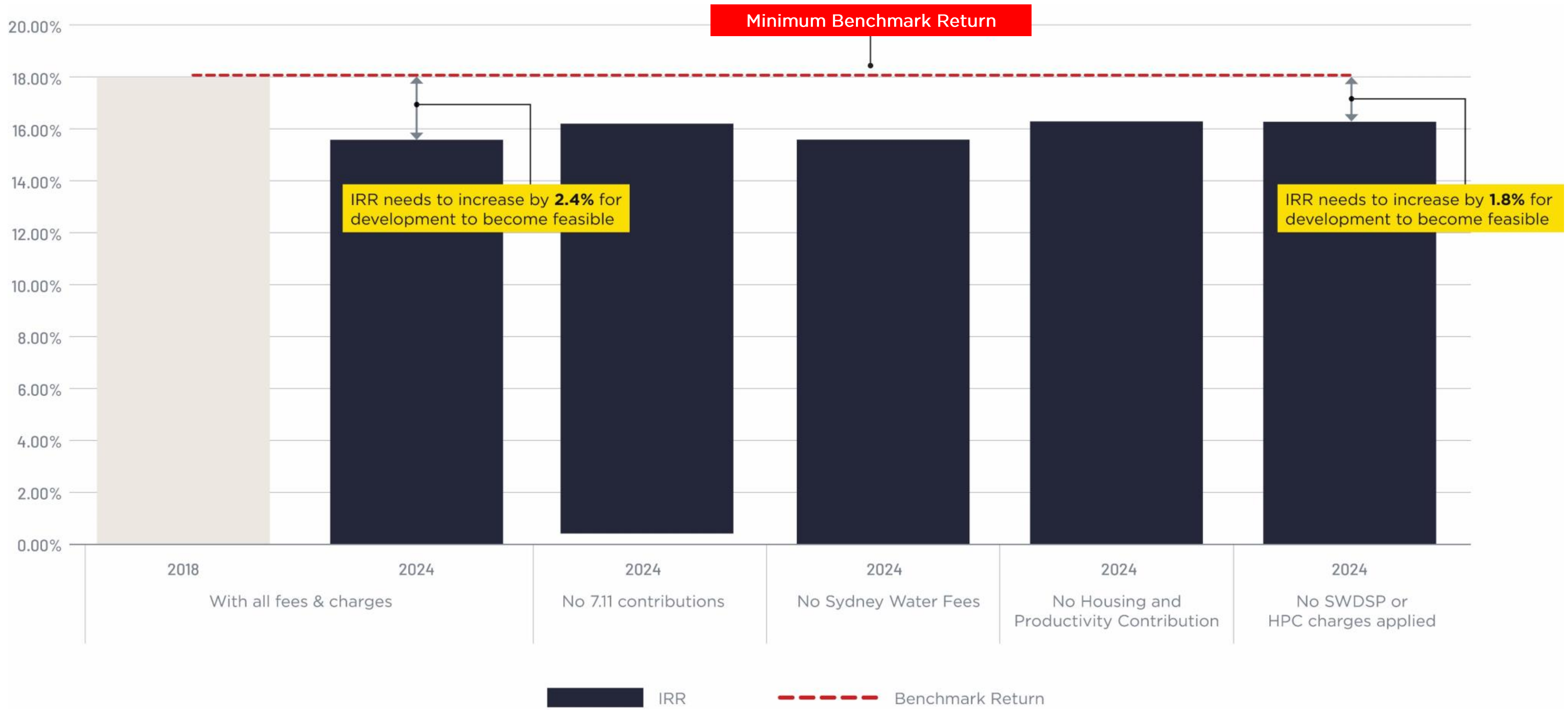


Figure 63 – Impact of changing State Government taxes and charges

Illawarra-Shoalhaven City:
Infill apartment feasibility

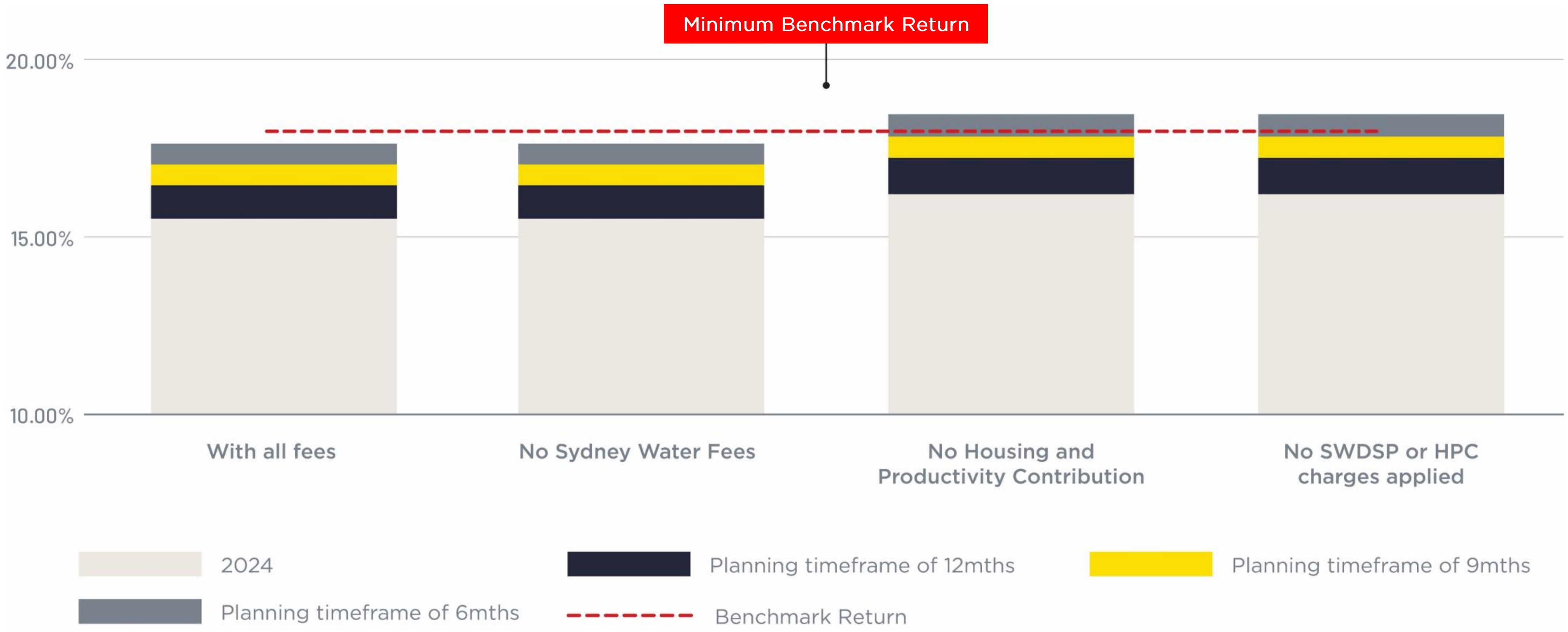


Figure 64 – Impact of changing State Government taxes and charges2024 and faster planning approval timeframes

FEASIBILITY RESULTS

Illawarra-Shoalhaven City: Greenfield development feasibility

The feasibility outcomes for the tested Greenfield scenarios illustrate the impact of Government fees and charges. In summary, the tested scenarios reveal:

- Typically, a zoned and serviced greenfield development of circa 115 lots has less risk and requires a lower return than an 80-unit apartment development, but these sites are very hard to find. Developers in Wollongong have noted that there can be substantial delays with zoning, planning approvals and servicing (including roads, water and sewer) which increases development risk.
- The feasibility modelling indicates greenfield development was feasible in 2018.
- In 2024, the same greenfield development remains just feasible.
- **In 2024, the same greenfield development is significantly more feasible if one or both of the Sydney Water DSP charges and HPC charges are suspended.**
- **By 2026, when full Sydney Water DSP charges and HPC charges apply, the greenfield development is very unfeasible (circa 16.4% IRR).** To ensure the greenfield development was feasible in 2026, current discounts (25% HPC) and (50% Sydney Water DSP charges) would need to be maintained. Alternatively, to help the project achieve benchmark returns, the Government could also fast-track planning approvals by 4 months which also results in the development becoming feasible, enabling it to proceed.
- **Fast-tracking planning approvals help achieve benchmark returns. Reducing the planning timeframes to a maximum 9 months results significantly reduces the holding costs and other development risks and improves the IRR and reduces holding.**

Illawarra-Shoalhaven City:
Greenfield development feasibility

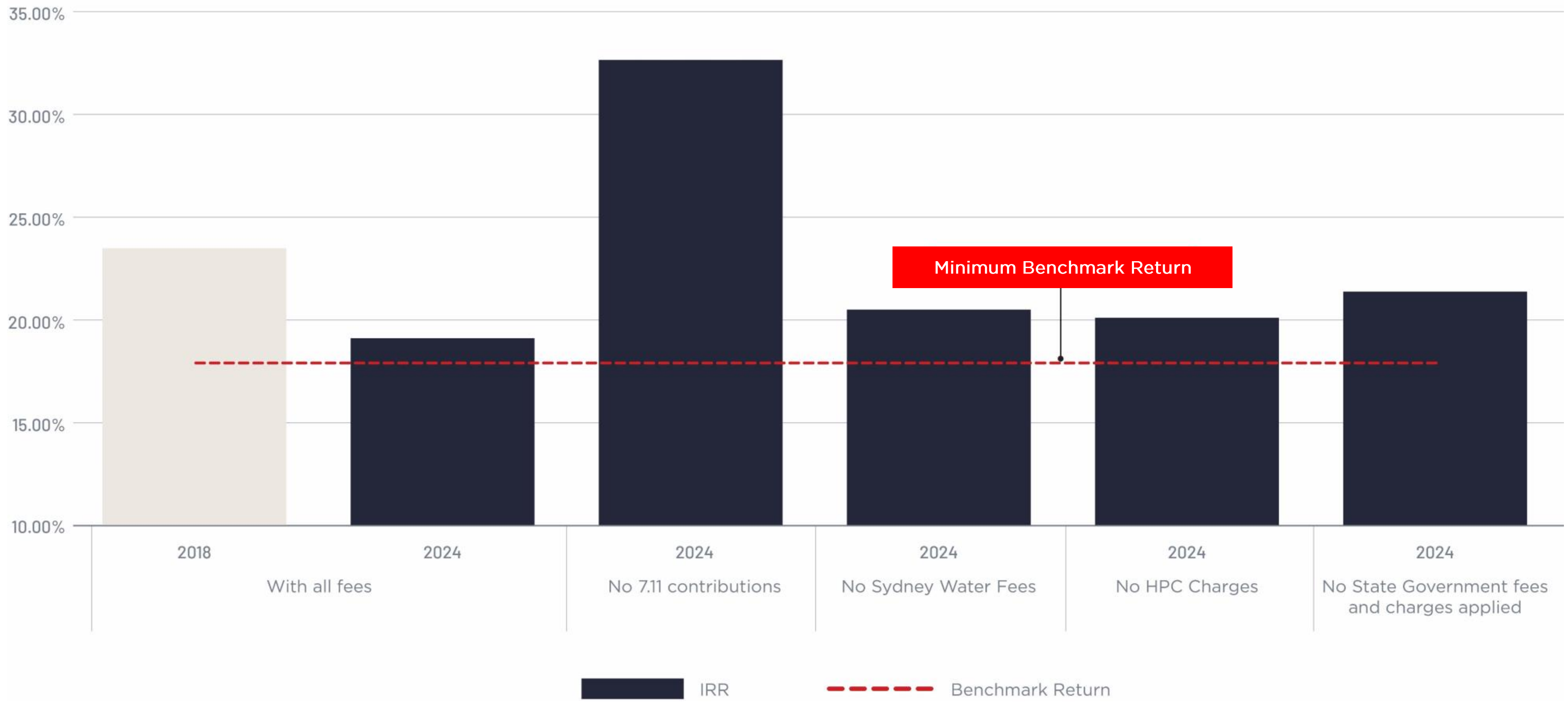


Figure 65 – Impact of changing State Government taxes and charges 2024

Illawarra-Shoalhaven City:
Greenfield development feasibility

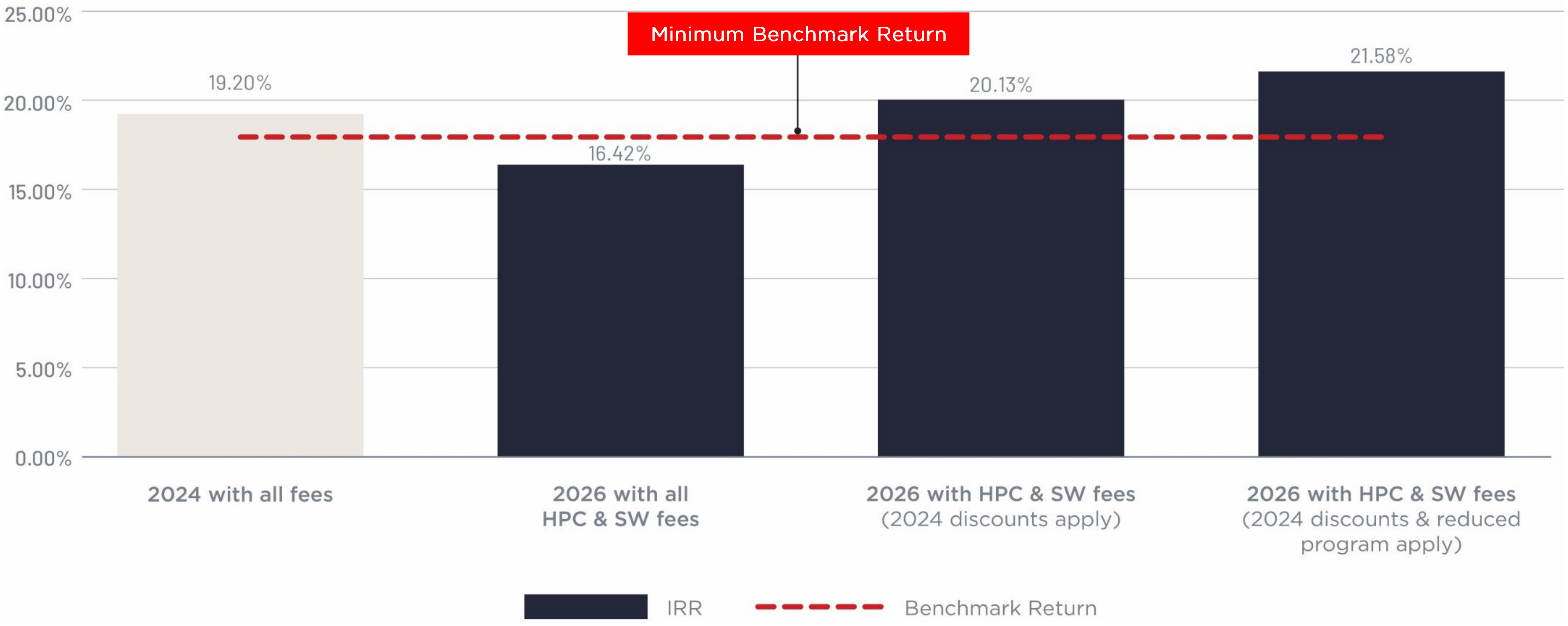


Figure 66 – Impact of changing taxes and charges and approval times in 2026

Illawarra-Shoalhaven City: Greenfield development feasibility

Figure 67 – Impact of changing State Government taxes and charges 2024 and faster planning approval timeframes

08

RELEASE THE PRESSURE

Conclusions & Recommendations

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)

Conclusions: **The benefit of Government action**

PROPERTY COUNCIL of Australia

savills

EASTERN HARBOUR CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Eastern Harbour City would help deliver ~62,000 new homes.

- This is ~ 34,000 higher than a continuation of actual completions in 2022/23 (circa 28,000 extra dwellings forecast over 5 years).
- This is ~ 17,500 higher than the Sydney Housing Supply Forecast Low Scenario (circa 44,000 extra dwellings forecast over 5 years).
- This is ~ 8,000 higher than the SHSF High Scenario (circa 54,000 extra dwellings forecast over 5 years).

CENTRAL RIVER CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Central River City would help deliver ~77,500 new homes.

- This is ~ 33,500 higher than a continuation of actual completions in 2022/23 (circa 44,000 extra dwellings forecast over 5 years).
- This is ~ 21,000 higher than the Sydney Housing Supply Forecast Low Scenario (circa 56,500 extra dwellings forecast over 5 years).
- This is ~ 11,000 higher than the SHSF High Scenario (circa 66,500 extra dwellings forecast over 5 years).

WESTERN PARKLAND CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Western Parkland City would help deliver ~ 50,000 new homes.

- This is ~ 16,000 higher than a continuation of actual completions in 2022/23 (circa 34,000 extra dwellings forecast over 5 years).
- This is ~ 19,500 higher than the Sydney Housing Supply Forecast Low Scenario (circa 30,500 extra dwellings over 5 years), which is even lower than a continuation of 2022/23 which had the lowest completions in years).
- This is ~ 16,500 higher than the SHSF High Scenario (circa 33,500 over 5 years), which is around the same as a continuation of the number of completions in 2022/23, which had the lowest completions in years.
- Savills' view is our forecast for the Western Parkland City could potentially be higher, however we are concerned that getting more sites serviced is currently taking a long time.

ILLAWARRA / SHOALHAVEN

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Illawarra-Shoalhaven City would help deliver ~20,000 new homes.

- This is ~ 10,250 higher than a continuation of actual completions in 2022/23 (circa 9,750 extra dwellings forecast over 5 years).
- This is ~ 13,250 higher than the Sydney Housing Supply Forecast (circa 22,775 extra dwellings over 5 years).
- Savills' view is our forecast for the Illawarra-Shoalhaven could potentially be higher, however we are concerned that getting Development Applications approved and more sites serviced is currently taking a long time.

The benefit of **Government action**

CENTRAL COAST CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Central Coast City would help deliver ~8,750 new homes.

- This is ~ 3,140 higher than a continuation of "Business as usual" (circa 5,600 extra dwellings forecast over 5 years).
- This is ~ 119 higher than the Housing Supply Forecast (circa 8,631 extra dwellings forecast over 5 years).

LOWER HUNTER & GREATER NEWCASTLE CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Lower Hunter & Greater Newcastle City would help deliver ~23,000 new homes.

- This is ~ 4,500 higher than a continuation of "Business as usual" (circa 18,500 extra dwellings forecast over 5 years).
- This is ~ 2,440 higher than the Housing Supply Forecast (circa 20,560 extra dwellings forecast over 5 years).

Conclusions: **The benefit of Government action**

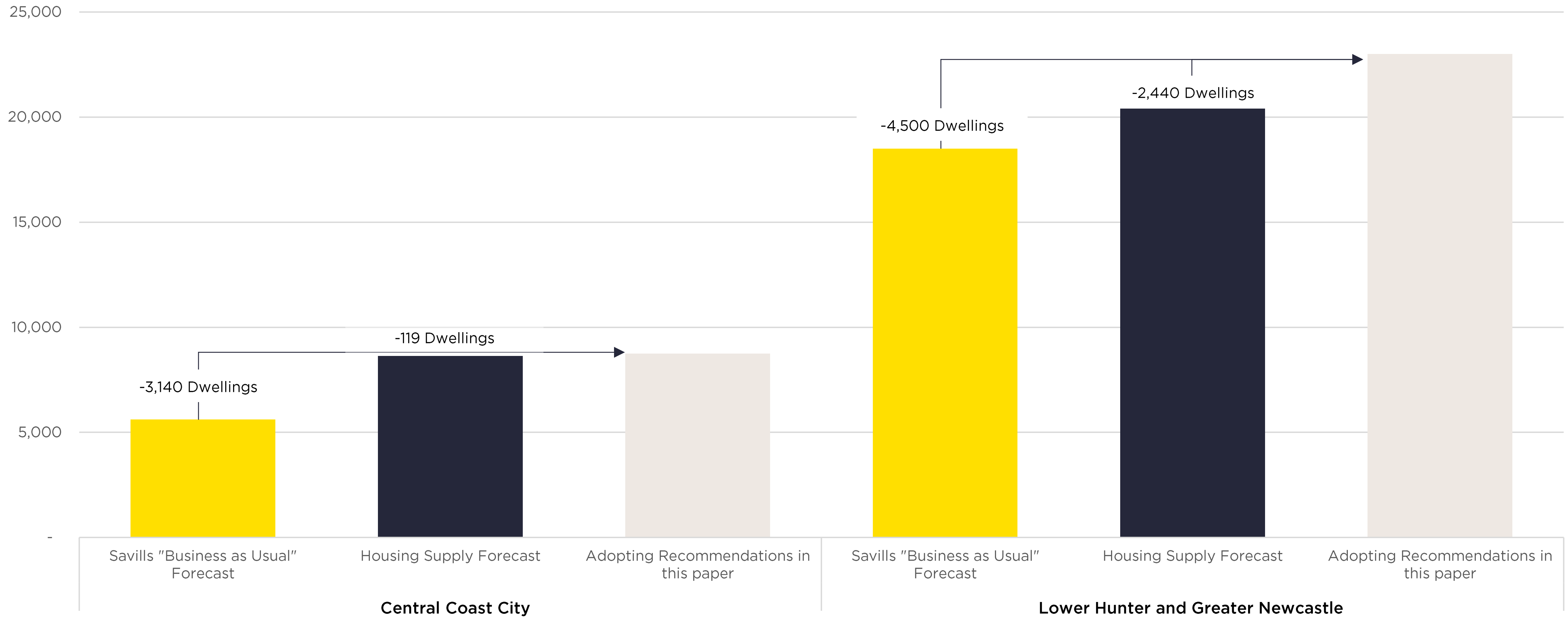


Figure 68 – The Forecast impact on housing supply of reducing State Government taxes and charges and faster planning approvals in Central Coast City and Lower Hunter & Greater Newcastle City

- 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.

Conclusions: **The benefit of Government action**

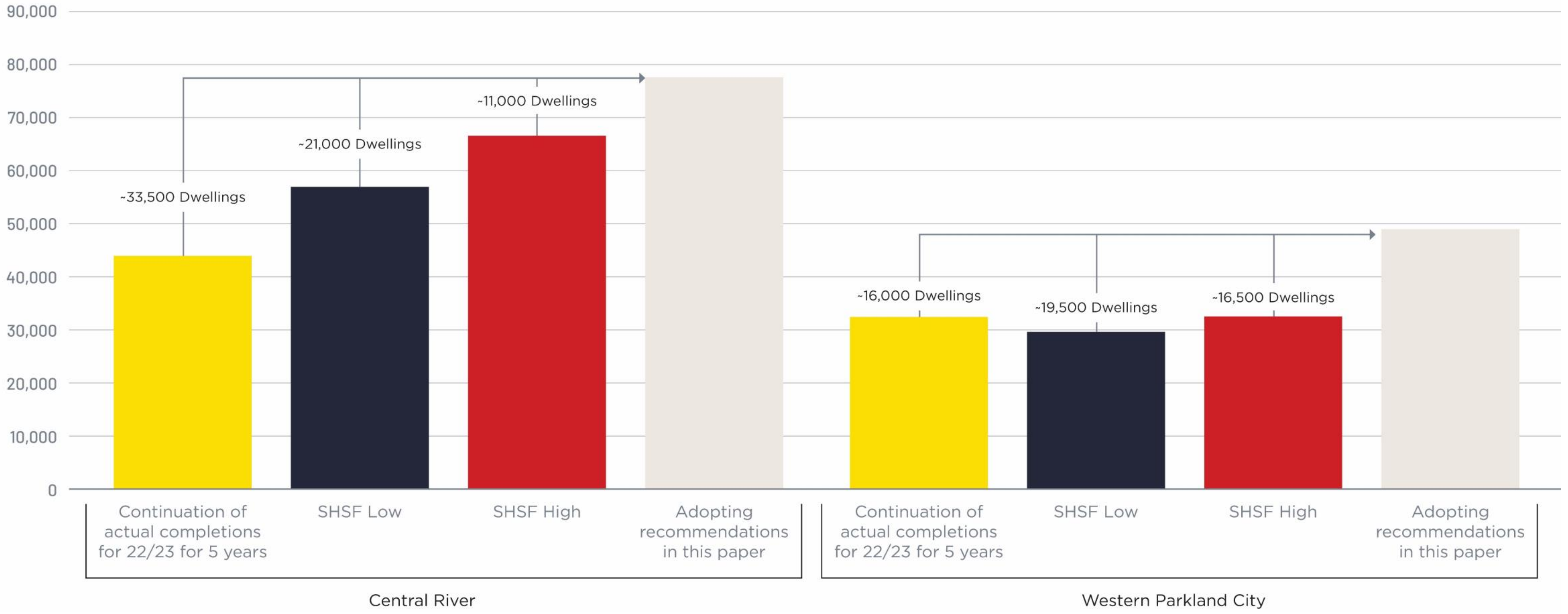


Figure 69 – The forecast impact on housing supply of reducing State Government taxes and charges and faster planning approval timeframes in Central River City and Western Parkland City

Conclusions: **The benefit of Government action**

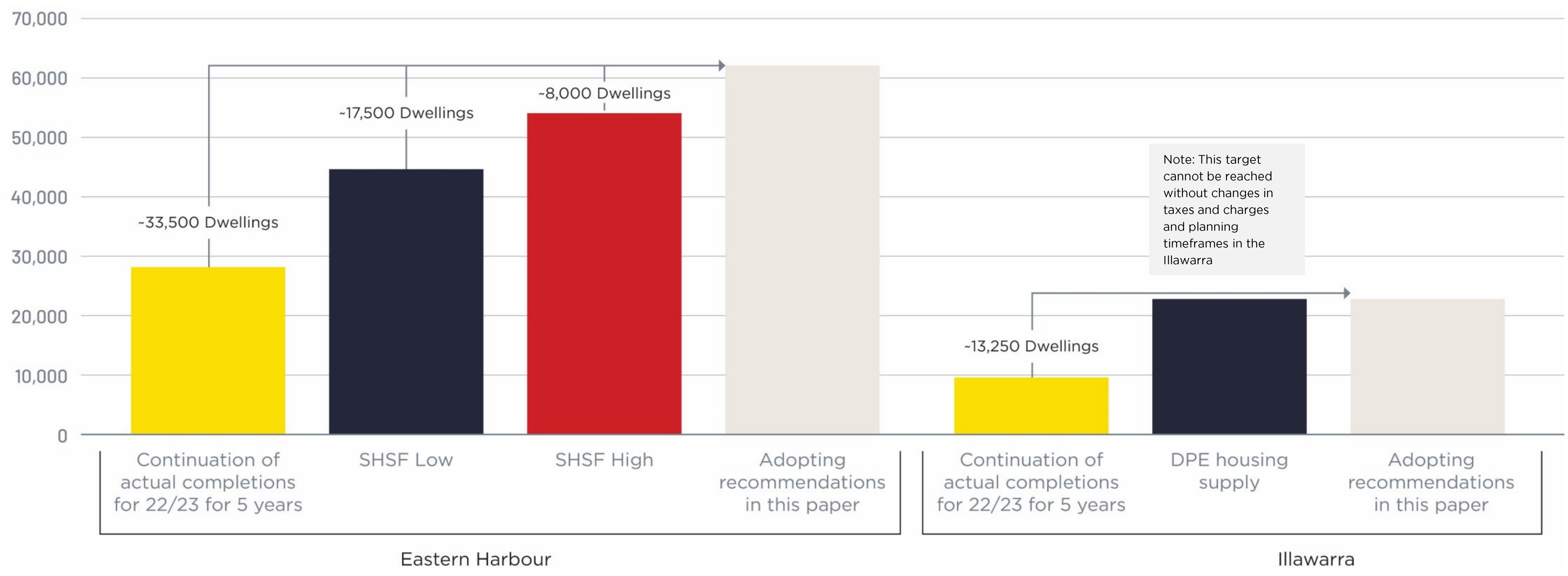


Figure 70 – The forecast impact on housing supply of reducing State Government taxes and charges and faster planning approval timeframes in Eastern Harbour City and Illawarra-Shoalhaven City

Conclusions: **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 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**

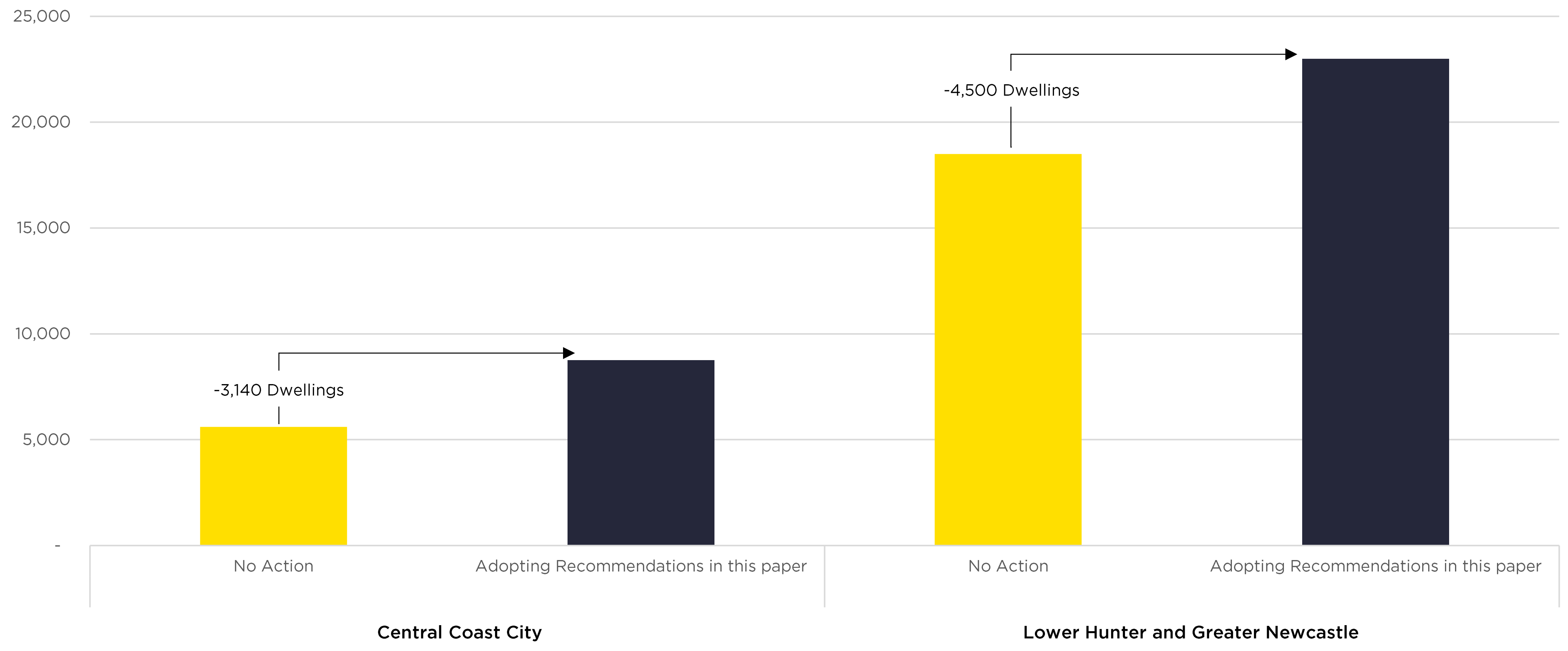


Figure 71 – Forecasting housing supply in Central Coast City and the Lower Hunter & Greater Newcastle City with and without action

Conclusions: **The cost of doing nothing**

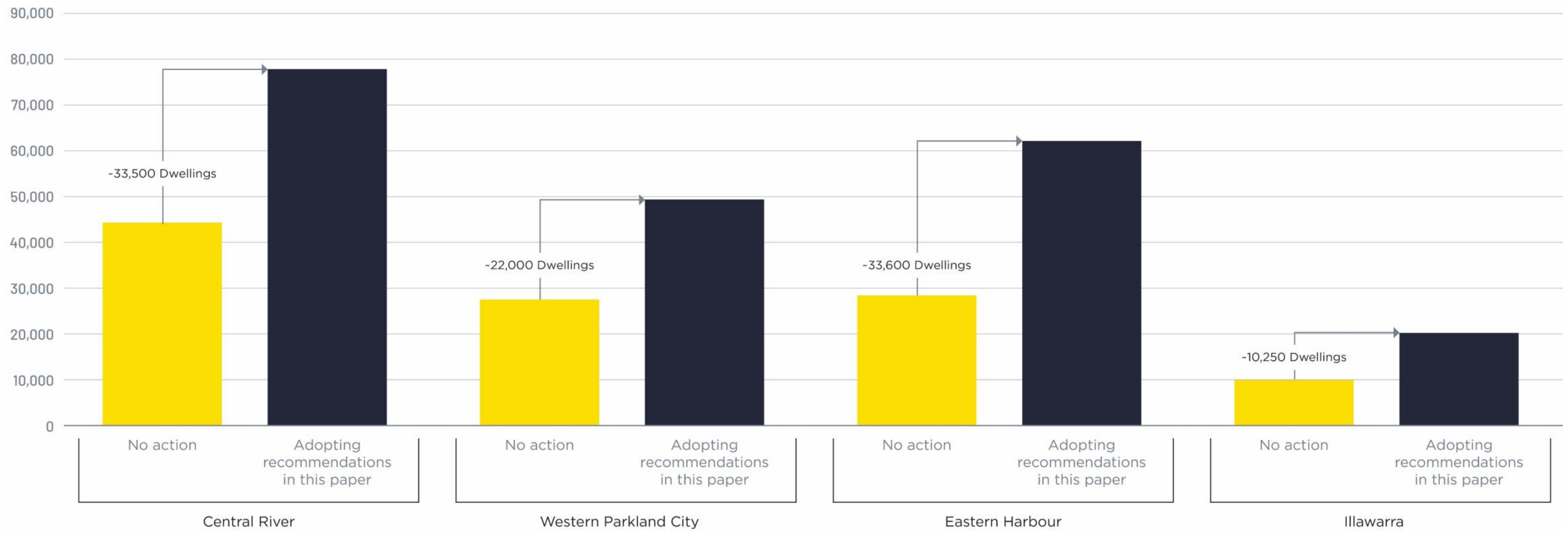


Figure 72 – Forecasting housing supply in Central River City, Western Parkland City, Eastern Harbour City and Illawarra-Shoalhaven City with and without action

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 all 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.

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Appendix A - Taxes and charges

1

LOCAL CONTRIBUTIONS (s7.11 and s7.12)

Local contributions are financial levies imposed on developments that will lead to a net increase in population within a specific area. Local contributions are intended to address increased infrastructure demand resulting from development.

Expressed as either a rate per lot, dwelling or square meterage, local contributions are typically allocated to projects supporting the local community such as roads, parks, and community facilities.

Section 7.11 contributions are set rates, while S7.12 contributions are a proportion of development cost typically ranging from 1-5%.

Local contributions are payable prior to construction certificate.

2

HOUSING AND PRODUCTIVITY CONTRIBUTION

The Housing and Productivity Contribution (HPC) is a development charge intended to fund infrastructure delivery in high-growth areas. The HPC applies to residential development which intensifies land-use where new dwellings are created, such as houses, apartments, terraces and dual occupancies.

In the Central River City, HPC rates are:

- $12,000 per dwelling/lot for detached, semi-detached and townhouse dwellings; and
- $10,000 per dwelling for all other forms of residential development (residential flat buildings and units).

The HPC's implementation is phased with rates discounted for a period of two years from its introduction in October 2023. Full contributions apply from July 2025 and will be payable prior to construction certificate.

3

SPECIAL INFRASTRUCTURE CONTRIBUTIONS

Special infrastructure contributions (SICs) are used by the NSW Government to fund infrastructure such as state and regional roads, open space, schools and health facilities in growth areas. They are intended to allow priority infrastructure to be delivered at the same time as development.

SICs are determined under the *Environmental Planning and Assessment Act, 1979* and apply to designate areas. A SIC is paid by a developer within a mapped Special Contributions Area to support to the cost of infrastructure delivery.

SICs are payable prior to construction certificate.

4

GOODS AND SERVICES TAX (GST)

Goods and services tax (GST) applies to the supply of vacant residential land and new residential premises if the supplier (vendor) is registered or required to be registered for GST purposes.

GST is payable at settlement and most purchasers are required to pay a GST withholding amount from the contract price at the date of settlement. This impacts a project's Gross Revenue and subsequent Development Margins.

Developers registered for GST can claim GST throughout the construction program offsetting some of their GST liability.

5

WATER DEVELOPER CONTRIBUTIONS

Effective from 1 December 2023, the NSW Independent Pricing and Regulatory Tribunal (IPART) has registered 14 wastewater infrastructure contribution prices and four drinking water prices to be levied by Sydney Water and Hunter Water.

The water and wastewater infrastructure contributions will be implemented gradually from 1 July 2024. In 2024-25, prices will be capped at 25 per cent of the full price registered with IPART, rising to 50 per cent in 2025-26, with full contributions from 1 July 2026.

Water and wastewater infrastructure contributions are proposed to be paid prior to construction commencing.

6

AFFORDABLE HOUSING CONTRIBUTIONS

Several councils across the Six Cities region have adopted Affordable Housing Contributions Schemes (ACHS). An AHCS requires developers to make financial or floor-space contributions towards new rental housing where there is a demonstrated affordable housing need.

The ACHS charge varies across LGAs ranging from 5-15%. Under the NSW's Transit Oriented Program, the NSW Government proposes to mandate a minimum 2% affordable housing contribution on new developments in 37 locations. The affordable housing contribution will gradually increase over time to make sure essential workers live closer to work.

Contributions are payable prior to construction certificate.

Appendix A - Taxes and charges

7

BUILDING COMMISSION BONDS

Since 1 January 2018, developers have been required to lodge a building bond for the building work that is 4 storey's or higher which is paid to NSW Fair Trading.

Building bonds are intended to secure funds up to the amount of the bond to pay for the costs of rectifying defective building works.

Building bonds equate to 2% of the contract price and are payable prior to application for occupation certificate.

8

LONG SERVICE LEVY

The NSW Government charges a levy on all building and construction works of $250,000 or more to fund long service to eligible building and construction workers.

The Long Service Levy (LSL) is 0.25% of the total cost of the work.

The LSL is payable prior to construction certificate.

9

DA ASSESSMENT FEES

Developers are required to pay development assessment fees at the time a development application is submitted to a local council or the Department of Planning, Housing and Industry.

A consent authority must, when determining the assessment fee, use the estimated development cost specified in the application, unless, in the consent authority's opinion, the specified estimated development cost is not genuine or accurate.

The development assessment fee is approximately 1% of the estimated development cost.

10

LAND TAXES

Land tax is an annual tax levied at the end of each calendar year on all landholdings that are above certain land tax thresholds, which are not owned by a foreign person and not the landholders' primary place of residence.

Land tax is calculated on the unimproved value of all landholdings over a certain threshold. The unimproved value is essentially the value of the land, without any dwellings or other improvements.

Land tax is calculated annually based on total land value and ownership status.

11

TRANSFER DUTY

When purchasing a property or transferring ownership of a property in NSW, transfer duty (stamp duty) must be paid on the purchase price. If the property is vacant land or new residential premises, stamp duty is payable on the GST inclusive price.

A foreign person and purchaser acquiring residential-related property must pay surcharge purchaser duty. Surcharge purchaser duty is calculated on the dutiable value and is paid in addition to the transfer duty payable on the acquisition of residential-related property.

12

FOREIGN BUYER SURCHARGES AND TAXES

A foreign person or corporation may have to pay surcharge purchaser duty on a variety of property transactions involving residential-related property. These include but are not limited to:

- Transfer Duty on agreements for sale of land
- property transfers
- declarations of trust
- Land Tax

Appendix A - Taxes and charges

13

LAND OR STRATA REGISTRATION FEES

NSW Land Registry Services (LSR) operates the NSW land titles registry for the State Government and is the governing body responsible for the fees charged for products and services involving land titles, plans, property information and Water Access Licence Registers.

Registration of a land subdivision or strata plan is subject to a number of Registration Fees with the LSR. These fees can vary depending on the complexity of the subdivision and number of registrations required.

14

CONSTRUCTION CERTIFICATE FEES

A Construction Certificate is an approval that certifies that a proposed development is certified to commence construction. The certificate confirms that the construction plans and development specifications are consistent with the Development Consent (DA) and comply with the Building Code of Australia (BCA) including relevant associated structural standards, codes and other council requirements.

Construction Certificate fees are typically assessed as a percentage of construction cost and typically range from 0.2%- 0.5%.

15

OCCUPANCY CERTIFICATE FEES

The Occupation Certificate authorises the occupation and use of a new building once development is completed. The certificate confirms that the building was constructed as per the plans and development specifications and complies with the Building Code of Australia (BCA) and any other relevant codes.

Occupancy Certificate fees are typically assessed on a per a lot basis and typically range from $1,000 to $2,000 per a lot.

Appendix B - Factors influencing **hurdle rates**

1

COST OF CAPITAL

The cost of capital measures the cost a developer incurs to finance its development. It measures the cost of borrowing money from creditors, or raising it from investors through equity financing, compared to the expected returns on an investment or IRR.

In assessing a project's viability, the resultant IRR should exceed the cost of capital to deliver a profit for equity investors or the developer.

2

PROJECT RISK PROFILE

The Project Risk Profile is determined by assessing the level of risk within a project and influences the return a developer seeks to achieve.

A project in the early stages with no development approval is considered riskier than a project under construction. Therefore, a developer would typically be willing to accept a lower return for a development under construction then a development with no development approval.

Timeframes heavily influence the overall return on a project.

3

PREVAILING MARKET CONDITIONS

Prevailing market conditions can refer to macro and micro economic factors or events that can have a direct influence on a development project both financially and on a time basis.

An example of this is the recent changes in interest rates and sales rates. Other global events such as wars and pandemics also increase the price of building materials and confidence in the market.

4

OPPORTUNITY COST

Typically, when assessing a development's feasibility, a developer will want to achieve a return that outweighs investing in alternative asset classes that might have a lower risk profile.

For example, industrial development can be less risky than residential development due to the limited barriers of entry, typically single tenant occupancy profile and shorter development timeframes.

Conversely residential development is considered a more complex and risky development project and therefore requires a higher internal rate of return.

5

PROJECT SPECIFIC FACTORS

Several project specific factors or assumptions can negatively impact development feasibility and can extend timeframes, subsequently impacting a project's achievable Internal Rate of Return. Some of these include:

- Confidence in sales rates and achieving presales;
- No builder or construction contract locked in
- No development approval
- Unforeseen ground conditions (contamination/artefacts);
- Risk of financial market movements impacting presales and affordability (such as interest rates)
- Sufficient connections to Sydney Water or appropriate electricity connections; and
- Traffic impacts or potential upgrades required.

An experienced developer should be able to foresee and mitigate a many of these through experience working within a preferred location or building type.

6

SENSITIVITY TO COSTS (ESCALATION)

During initial feasibility assessments, developers can allow for additional escalation and contingencies to mitigate any future price risk in relation to professional fees or construction costs.

Typical escalation allowances are between 3-5%.

Sources

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3. Survey published in the Sydney Morning Herald https://www.smh.com.au/politics/federal/more-than-70-percent-of-young-people-believe-they-ll-never-be-able-to-buy-a-home-20230223-p5cn01.html
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8. Developer Contributions: How we should pay for new local infrastructure, National Housing, Finance and Investment Corporation (August 2021): https://www.housingaustralia.gov.au/research-data-analytics/developer-contributions-how-should-we-pay-new-local-infrastructure