Urban NSW Taskforce

What Infrastructure?

A report into how infrastructure levies are crippling land release in Western Sydney.

Prepared by **NSW Urban Taskforce** September 3, 2007

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1. Introduction

Owning your own home is the great Australian dream. Home ownership delivers a wide range of economic and social benefits – both to home owners and the communities in which they live. However, Australia and its premier State, NSW, have been experiencing declining levels of home ownership for some time.

The 2006 census shows how mortgage repayments have been spiralling out of control, when compared to wages. The average housing mortgage repayment to income ratio for typical first home mortgages has increased from 18 per cent in 1996 to 31 per cent today.

In 1996 the proportion of Australia's population who owned their own home was 41 per cent – this fell to 33 per cent by the 2006 census. Over the same period the proportion of the community who were still paying off their home, rose from 26 per cent to 32 per cent.

However, the situation is most acute in Australia's largest city. The 2006 census data shows that in Sydney 30 per cent of households own their own home outright, but in Melbourne it's 33 per cent. In Sydney 31 per cent of households have got started in the property market with a mortgage, while in Melbourne it's just under 35 per cent.

The housing affordability crisis is not limited to those who have a mortgage. According to the NSW Department of Housing's August 2007 *Rent and Sales Report* annual increases in median rent for one bedroom units are as high as 24 per cent in Auburn and 20 per cent in Marrickville. Rents for two bedroom units in Mosman increased by 17 per cent and in both Pittwater and Liverpool they increased by 14 per cent. In 17 local government areas there were rental increases of 10 per cent or more.

Research organisation BIS Shrapnel's latest report *Building in Australia 2007 to 2022* predicts that the construction of new homes in NSW will fall short of what's needed for the next three years. In fact, next year alone there will be a national shortfall of 22,000 homes. If this analysis is correct Sydney's rents will continue to soar until 2010.

Clearly there is a housing supply crisis in Sydney. To put the extent of this crisis into perspective, even if there was zero population growth over the next 25 years, Sydney will still need 190,000 new homes to deal with the fact that, on average, fewer people are living in each home. There is an escalating demand for extra homes because of: young people deferring marriage and co-habitation; increased divorce; and elderly people living longer.

2. The growth centres

In response to the clear need for more housing supply the NSW Government has established "growth centres" areas in Sydney's North West and South West. In total, the Growth Centres Commission estimates that these areas will provide around 181,000 new dwellings.

The North West Growth Centre consists of land located in Baulkham Hills, Blacktown and Hawkesbury council areas. The North West Growth Centre consists of sixteen precincts and is approximately 10,000 hectares. The Growth Centres Commission estimates it will contain about 66,000 new homes – a city the size of Wollongong.

The South West Growth Centre consists of land located in Liverpool, Camden and Campbelltown council areas. The South West Growth Centre consists of eighteen precincts and is approximately 17,000 hectares. The Growth Centres Commission estimates it will contain around 115,000 new homes – a city the size of Canberra.

In June 2006 the Government formally announced the first tranche of precincts to be released in the growth centres. It was announced that the first precincts to be released in the North West Growth

Centre will be Alex Avenue (7000 lots), Area 20 (1500 lots), Colebee (1000 lots), North Kellyville (4500 lots), Riverstone (8500 lots) and Riverstone West (500 lots).

In the South West, the Government has announced that the first precincts will be Edmondson Park (7500 lots), Oran Park (7000 lots) and Turner Road (Badgally Road) (4000 lots).

The NSW Government also released a "Precinct Acceleration Protocol", which allows other precinct releases within the growth centres to be accelerated.

3. Infrastructure funding

The NSW Government has implemented an infrastructure contribution which, in the precincts already announced for first release, is levied at a rate of 75 percent of the cost of State Government infrastructure for a precinct – 25 percent will be met by Government through the budget process.[1] On top of this, developers will need to pay an infrastructure contribution (known as a "section 94 contribution") to local councils to pay for local government infrastructure.[2]

State Government infrastructure includes roads, public transport, health facilities, schools and TAFE, police and emergency services, and conservation measures. A *Growth Centres Infrastructure Plan* has been prepared by the Commission but has been kept secret and has not been publicly released.

The great majority of precincts in the growth centres have not been listed for release as yet. They will only be released in the foreseeable future if the NSW Government approves their release under its Precinct Acceleration Protocol. However a key condition for acceleration of a precinct is that there is no cost to Government. This means that the cost of funding infrastructure increased from 75 per cent to 100 per cent. In some cases the developer is even being asked to pay for infrastructure that benefits other release areas (i.e. the developer's contribution may exceed 100 per cent).

4. The barrier stopping new homes

The cumulative impact of state and local government developer charges simply adds to the cost of developing of land. It means new home owners, unlike previous generations, must fund the cost of infrastructure up-front. As a consequence, the cost of new land and housing in the growth centres would be higher than the market for houses in the same region. The cost of new land and housing is now unaffordable for a large segment of the potential first home buyers.

The cumulative impact of development charges also increases the cost of production of new industrial/employment lands which limits the supply of such land to the market. This denies the residents of our suburban Sydney important local employment opportunities.

It is the view of the **NSW Urban Taskforce** that new homes simply will not be built in the vital growth centres of Sydney with the current myriad of contributions, charges and levies for infrastructure.

As it currently stands, the costs a developer faces making available fully serviced lots to home buyers in the growth centres will exceed the price the developer would get for them. Simply put this means no development and a shortfall of new homes in Western Sydney with resulting further upward pressure on home prices and rental costs.

This is easily illustrated. On average it costs the developer $329,500 to deliver a fully serviced residential lot to the market in Sydney's growth centres. Table 1 shows how this figure is calculated.

[1] *Environmental Planning and Assessment Act 1979* s 94ED – 94EM.
[2] Section 94 contributions take their name from section 94 of the *Environmental Planning and Assessment Act 1979*.

Table 1: Average costs faced by a developer to deliver a fully-serviced 450 square metre residential lot to home buyers in Sydney's growth centres.

Expense	**Cost per lot (450m^2)**
Purchase of undeveloped land from the original owner	$50,000 (which is equivalent to $750,000 per hectare – the current market value for rural lifestyle land in the region)
An infrastructure contribution to the State Government	$43,000 - based on $645,000 per developable hectare
A section 94 contribution to pay for facilities provided by local councils	$47,000 (calculated using the most current figure - Camden Council's proposed contribution for Oran Park)
Developer charges imposed by utilities such as Sydney Water and Integral Energy and gas supplies	$20,000
Construction of internal infrastructure within the precinct (e.g. roads, footpaths, power lines, sewage, water, gas and civil earthworks)	$60,000
Holding costs (because it takes around 30 months from buying the undeveloped land to selling a finished serviced block): (debt and equity)	$65,000
Architects, planners, engineers and other consultants	$20,000
Sales and marketing	$12,000 (4 per cent – 2 per cent for sales commission and 2 per cent marketing costs)
Contingencies	$10,000
Stamp duty	$2,500
Total costs	**$329,500**

The average market price for a fully-serviced 450 square metre residential lot in the growth centres is $300,000. A developer would make no money from this transaction – they would actually have to toss in at least $30,000 of their own money for each lot to make the whole thing work. This simple equation is illustrated in table 2.

Table 2: Average profit for a developer on the sale of a fully-serviced 450 square metre residential lot in the growth centres.

Sale price of residential land	$300,000
Less developer's costs	$329,500
Profit (loss) to developer from the transaction	**($29,500)**

Given that the NSW Government's policy framework is dependant on private sector investment to develop land, it is essential that the private parties who are expected to deliver the serviced land to the home buyers are able to make a reasonable return on their investment. Without such a return, government 'land releases' will be land releases in name only.

Additionally, the current system ignores the practicalities of project financing.

For instance, in the areas already announced for release in the growth centres there is a State Government infrastructure charge of $485,000 per hectare. There is a $705,000 charge per hectare as section 94 contribution. This is a total $1,190,000 per hectare. The valuation for un-serviced, undeveloped land is about $750,000 per hectare. This is the current market price of rural lifestyle land in region.

Normal practice in property development is to use the unimproved land as security for finance. Typically a loan-to-value ratio of 50-60 per cent is possible (as the land is not income-producing). This means a developer could expect, for $750,000 of land, to secure finance of around $375,000 to $450,000 to meet development costs. This comes nowhere near the required outlay of $1.2 million – just too up-front pay government charges! They simply can't obtain finance equal to 158 per cent of land value.

5. The sheer size of infrastructure charges

The NSW Government has taken a policy decision that the rezoning of land must be accompanied by all necessary infrastructure. The cost of this infrastructure is to be passed onto the home buyer. But the sheer enormity of the cost for each residential lot means that residential lot simply won't be produced.

We've already seen how the costs of infrastructure charges in the growth centres adds up to $110,000 per residential lot.

How does this compare with other States? The facts show that NSW has the highest infrastructure charges in the country.

In Queensland the infrastructure charges total $16,000 per residential lot. In Victoria, the State Government has proposed charges of $8,000, on top of existing local government charges of $6,000 (total $14,000). In Perth there are no state government infrastructure charges and the local council charge is $614.

The State Government itself says that it is seeking to fund at least 75 per cent of $7.5 billion of infrastructure – that $5.6 billion.[3] The local council infrastructure levies (known as 'section 94' contributions) have not formally been determined by councils. However Camden Council is the first off the blocks and it has proposed a levy equivalent to $47,000 per residential lot in the draft *Oran Park Precinct Section 94 Contributions Plan*, released for public exhibition.

If a levy of this order is extrapolated across all dwellings to be constructed in the growth centres (181,000 new homes) you will have local council infrastructure charges equalling $8,507,000,000 – that is $8.5 billion dollars.

Total cost of infrastructure in the growth centres which may be recouped from home buyers: $14.1 billion.

Frankly the weight of this burden will only ensure that the growth centres are never seriously developed. They will be centres of stagnation rather than growth.

6. What the charges include

While the idea of 'taxing the developer' may be politically popular, the prime burden of any such tax falls on the ordinary home buyer.

[3] Growth Centres Commission website accessed 18/8/07: http://www.gcc.nsw.gov.au/the-commission.aspx.

The home buyer suffers in two ways:

- less housing is delivered because increased costs make many projects economically unviable ; and
- when housing can be delivered it is more expensive than it otherwise would be.

Any potential resolution must come with an acceptance by both the State Government and local councils that there is a limit to the amount of funds that can be raised from developer levies.

It will not be viable merely to have wish lists of infrastructure as if there is some sort of bottomless pit. What is lacking is a rational analysis how much developers can be asked to pay without sterilising the whole land release program.

6.1 Local government infrastructure charges

It would be apparent to most people that the construction of main roads, schools, police facilities and health facilities are essential items of infrastructure.

However, the first (and therefore the benchmark) section 94 contributions plan for the growth centres goes far beyond this kind of mundane necessity. Based on the first benchmark draft section 94 contributions plan (for Oran Park), the total estimated contribution by developers to local councils across the growth centres would be $8.5 billion.

Local government is proposing that the communities of the growth centres have the sort of publicly funded facilities that the rest of Sydney could only dream of.

Pages 33-34 of the draft Oran Park Precinct Section 94 Contributions Plan prepared by Camden Council and released for public exhibition requires local council infrastructure contributions to cover the wellness/massage facilities, yoga and Pilates facilities, beach volley ball courts and media/sound studios.

How many residents of Sydney have or would expect their local council to provide facilities of this kind? Given the enormity of the cost burden being faced by home purchasers, aren't these kinds of public facilities something that most homebuyers would rather not have to pay for?

6.2 State government infrastructure charges

In relation to State Government infrastructure the government says there will be "an estimated $7.5 billion of infrastructure, including roads, rail, bus networks, educational and health services, linked to the staged release of land for new homes over the next 30 years."[4]

This much repeated figure glosses over the little known fact that some of this 'infrastructure' money is to pay for 2,300 hectares of "conservation offsets".[5] These "offsets" are the acquisition by the government of 2,300 hectares of "priority high quality vegetation in Western Sydney and the Sydney Basin."[6] The total cost? $530 million (2005/06 values).[7] This money is generated as part of the Government's "infrastructure contributions".[8]

[4] *Growth Centres Conservation Plan Final Exhibition Draft* page 36.
[5] Ibid page 3.
[6] Ibid.
[7] Ibid page 21.
[8] Ibid.

One might argue the offset land will be of benefit to local residents, because the local environmental amenity will be improved. This argument might hold some weight, except for the fact that 75 per cent of this money ($398 million) will be used to purchase land *outside* the growth centres.[9]

The urban development industry asks the question: why should home buyers bear the cost of $398 million worth of conservation land that is not even in the region in which they will be living? Why is the Government picking up this cost?

7. Where to now?

The **NSW Urban Taskforce** is a forum for the people involved in growing our cities and regional centres to have a say in the decisions that affect them. That's why the Taskforce has prepared this report.

The Taskforce will take this report to government, and the wider community, to highlight the problems inherent in the current system of growth centres infrastructure charges.

The industry strongly argues that the system of infrastructure charges needs to be reviewed.

Otherwise there will be no development in the growth centres. That means 181,000 planned homes will not be built.

[9] Ibid.